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WESTJET 2006

An Overview

ANNUAL REPORT 2006

WESTJET

2006 WAS A BIG YEAR FOR US in terms of both earnings and growth.

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WESTJET IS CANADA'S LEADING LOW-FARE AIRLINE and is based in Calgary, Alberta. At year-end 2006, WestJet employed 5,990 people, and carried 11.2 million guests to its 23 Canadian destinations of Victoria, Comox, Vancouver, Abbotsford/Fraser Valley, Prince George, Kelowna, Grande Prairie, Calgary, Edmonton, Fort McMurray, Saskatoon, Regina, Winnipeg, Thunder Bay, London, Hamilton, Toronto, Ottawa, Montréal, Moncton, Charlottetown, Halifax and St. John's, its 11 American destinations of Honolulu (seasonal), Maui (seasonal), Los Angeles, Palm Springs (seasonal), Las Vegas, Phoenix (seasonal), Tampa, Orlando, Fort Myers, Fort Lauderdale and West Palm Beach, and its first international destination of Nassau, Bahamas. As at December 31, 2006, WestJet's fleet consisted of 63 Boeing 737 aircraft. WestJet is publicly traded on the Toronto Stock Exchange under the symbols WJA and WJA.A.

THE FUTURE BECAME DISTINCTLY BRIGHTER for both WestJet and the airline industry.

WestJet welcomes you aboard. We are happy to serve you our 2006 results, activities, financials and forecasts today. Especially after a year of record-breaking profits.

ALICIA BURTON
Flight Attendant

YANICK HARRISON
Flight Attendant

WELCOME ABOARD

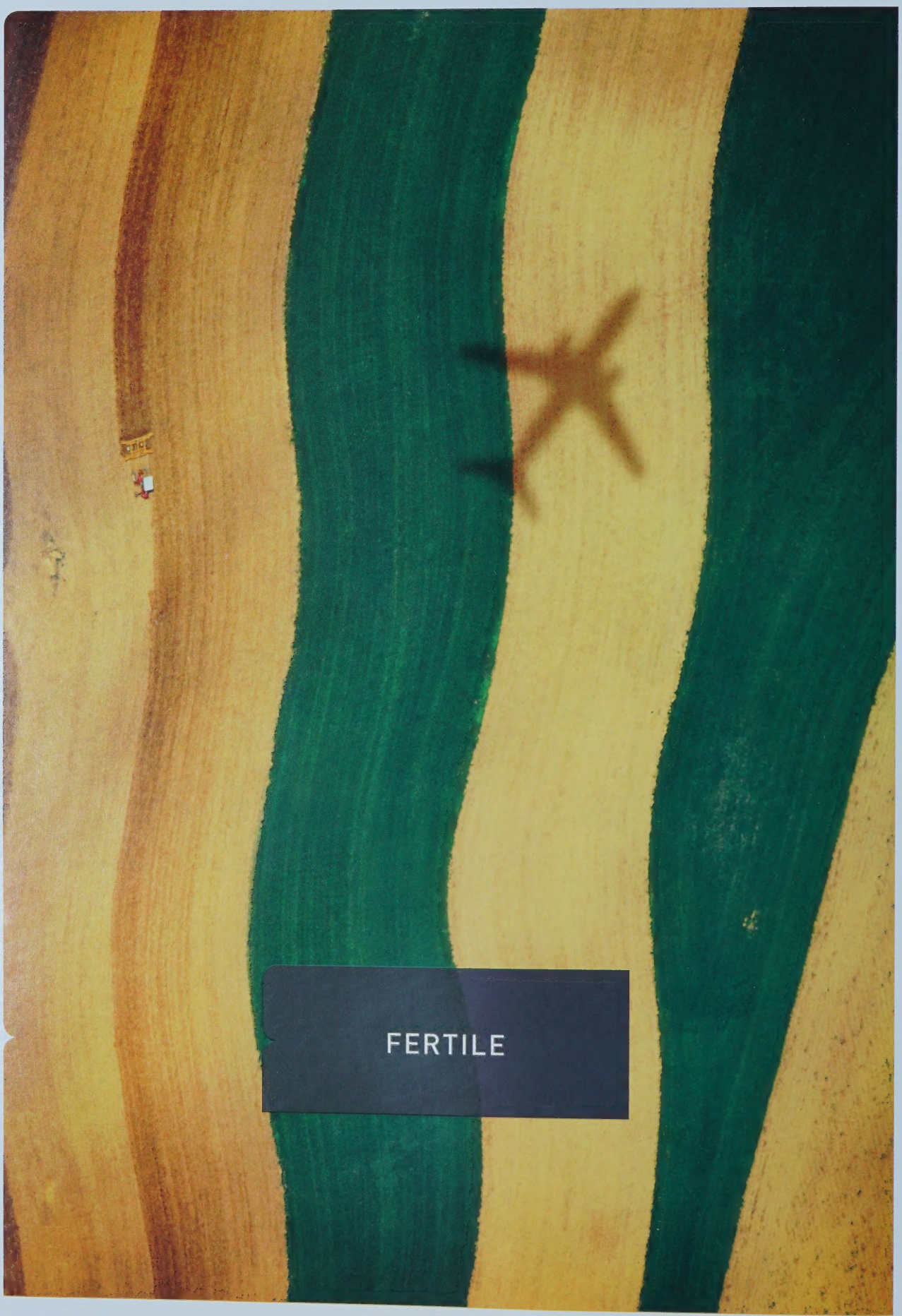
We would also like to take this opportunity to showcase our friendly and diligent people whose accomplishments have given us an extraordinary story to tell.

If at any time during your read you wish to simply relax and enjoy the scenery, we encourage you to take in the view on your left. There you will get a breathtaking snapshot of how things appear from our vantage point at 40,000 feet.

For a closer view, please turn your attention to the task at hand: the discussion and in-depth analysis of our achievements and success in 2006.

Both offer an impressive overview of an airline that is spreading its wings and poised to increase its value in the years to come.

Once again, we thank you for investing or considering to invest in WestJet and we hope you have a pleasant read.



AT THE END OF 2006, our net earnings grew by 378 per cent to $114.7 million.

FINANCIAL OVERVIEW

WestJet Airlines Ltd.

Selected Consolidated Financial Data (in Thousands of Dollars, Except Per Share Data)

	2006	2005	2004	2003	2002
Consolidated Operating Statistics					
Revenue	$ 1,773,686	$ 1,392,762	$ 1,057,213	$ 863,323	$ 683,388
Earnings before income taxes	$ 164,481	$ 51,975	$ (15,976)	$ 97,395	$ 82,844
Net earnings (loss)	$ 114,676	$ 24,001	$ (17,168)	$ 60,539	$ 51,780
Earnings (loss) per share					
Basic	$ 0.88	$ 0.19	$ (0.14)	$ 0.52	$ 0.47
Diluted	$ 0.88	$ 0.19	$ (0.14)	$ 0.52	$ 0.46

	2006	2005	2004	2003	2002
Consolidated Operating Statistics					
Revenue Passenger Miles (RPM)	9,791,878,403	7,957,738,384	6,277,332,668	4,852,506,652	3,406,663,632
Available Seat Miles (ASM)	12,524,379,943	10,672,983,797	8,963,103,389	6,871,715,636	4,650,990,031
Load Factor	78%	75%	70%	71%	73%
Yield (¢)	18.1	17.5	16.8	17.8	20.1
Revenue per ASM (¢)	14.2	13.0	11.8	12.6	14.7
Operating cost per ASM (¢)	12.6	12.5	11.4	10.9	12.6
Average stage length (miles)	833	802	758	659	552
Cost per passenger mile (¢)	16.1	16.8	16.2	15.4	17.2
Segment guests	11,168,027	9,423,279	7,835,677	6,978,815	5,861,068
Fuel consumption (litres)	617,963,429	552,382,525	490,782,605	397,613,173	305,600,565
Fuel cost per litre (¢)	68.9	64.1	49.2	39.2	36.6
Number of full-time-equivalent employees at year-end	4,974	4,285	4,024	3,396	2,710
Fleet size at year-end	63	56	54	44	35

Note 1: For comparative purposes, impairment loss of $47,577,000 included in depreciation and amortization expense has been excluded from unit cost calculations for 2004.

OPERATIONAL TERMS EXPLAINED:

REVENUE PASSENGER MILES: A measure of passenger traffic, calculated as the number of revenue passengers, multiplied by the total distance flown.

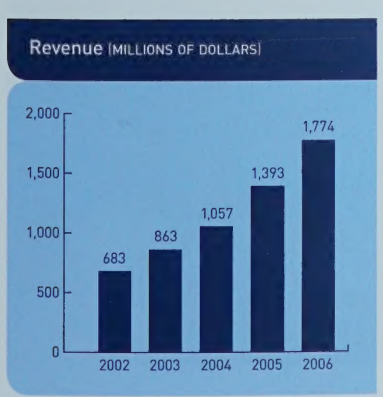
AVAILABLE SEAT MILES: A measure of total passenger capacity, calculated by multiplying the total number of seats available for sale by the total distance flown.

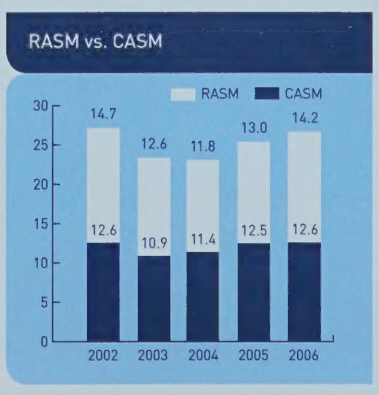
LOAD FACTOR: A measure of total capacity utilization, calculated as the proportion of total available seat miles occupied by revenue passengers.

YIELD (REVENUE PER REVENUE PASSENGER MILE): A measure of unit revenue, calculated as the gross revenue generated per revenue passenger mile.

CASM (COST PER AVAILABLE SEAT MILE): Operating expenses divided by available seat miles.

RASM (REVENUE PER AVAILABLE SEAT MILE): Total revenue divided by available seat miles.





IT WAS A YEAR OF MILESTONES. We recorded four record quarters of profit, and we went international, adding the Bahamas to our growing list of destinations.

Hi, I'm Sean Durfy, President of WestJet. We're expecting sunny skies this year. Perfect for enjoying views like the one on your left. And if you think that's breathtaking, wait till you see our business landscape. Allow me to give you a quick overview.

SEAN DURFY
President

PRESIDENT'S MESSAGE TO SHAREHOLDERS

As president, to reflect on WestJet's performance throughout 2006 is a privilege. This was a momentous year for our airline, highlighted by significant growth, record earnings, industry-leading performance and award-winning standards.

This 12-month journey began with the cost-conscious retirement of our last 200-series aircraft and ended with record net earnings and fourth quarter results. Through a focused and collective commitment, we controlled costs and improved profitability, increasing shareholder value for all WestJet owners, with earnings increasing to 88 cents a share in 2006, a notable improvement compared to 19 cents in 2005.

We took to the skies in 1996, with 200 employees and three aircraft. After a decade of flight, our business landscape is breathtaking. Our domestic market share increased to 35 per cent, measured in revenue passenger miles, by the end of 2006, and is expected to reach 37 per cent in 2007. Having entered the transborder market in 2004 and now the international market in 2006, both continue to develop as important and profitable aspects of our business with enormous growth potential. As we establish our name in the U.S. and build a scheduled network that meets the demands of our guests, we are seeing an excellent return on that investment.

Along with our aggressive growth, we have maintained our commitment to providing an exceptional guest experience, as delivered by our 5,990 WestJetters. In addition to our focus on guest experience, we are also committed to industry-leading operational performance. In fact, at the end of 2006, out of the

airlines that report operational performance, WestJet was one of only two North American airlines to rank in the top five on key performance measures of on-time performance, completion rate and baggage.

Throughout 2006, we looked for ways to improve our product and launch sustainable initiatives for future profitability; one such initiative was WestJet Vacations. Much like our transborder service, which started to prosper in its second year, we expect to see great things from WestJet Vacations in 2007 and beyond.

A vacation company is a logical product expansion for WestJet. With the cost of air travel and the ability to produce high margins being the biggest struggle for Canadian tour operators, WestJet Vacations has a clear advantage. Leveraging WestJet's aircraft, network, loyal guest base and exceptional guest service, while operating with the same low-cost model, WestJet Vacations has the potential to become the premier vacation provider for Canadians and our U.S. friends coming to Canada.

The addition of Nassau, Bahamas to our network brought WestJet to the international market, benefiting our seasonal business and enhancing WestJet Vacations. Sun destinations will continue to be part of our network growth, with the launch of Nassau and West Palm Beach bringing our total number of transborder and international destinations to 12. This is also part of our fleet deployment strategy to fit the travel demands of our guests – flying where they want to go when they want to go there. These vacation spots lessen our costs through the increased utilization of our aircraft, as they fly at alternate hours to our domestic routes and spread costs over greater distances.

After a decade of leadership that created a strong and vibrant company, 2006 was an appropriate time for transition at the executive level. Most notable was the retirement of Sandy Campbell, CFO, and the transition of Clive Beddoe to Chairman and Chief Executive Officer. I accepted the role of President in September 2006, having previously held the position of Executive Vice-President, Marketing, Sales and Airports. When it came time to add to our executive team, we didn't have to look beyond the walls of WestJet. Three of our newest Executive Vice-Presidents, Bob Cummings, Hugh Dunleavy and Ken McKenzie, represent our culture, which is embraced at all levels of the organization, as well as possess the knowledge and business savvy required for our growing business. Our CFO left big shoes to fill, and we took the time necessary to find the right replacement; I am pleased to welcome Vito Culmone to the role of Chief Financial Officer and Executive Vice-President, Finance. We were fortunate in the interim to have two exceptional individuals, Derek Payne and Janice Paget, valued contributors to our organization for many years, to share the role of CFO.

We have identified a corporate vision that by 2016 WestJet will be one of the five most successful international airlines in the world providing our guests with a friendly and caring experience that will change air travel forever.

We are searching for our new Executive Vice-President for our People department. We believe this position will be easily filled as our culture puts a tremendous emphasis on people, giving a human resources professional an opportunity to truly shine.

In 2006, Don MacDonald, a long-time member of our Board of Directors, stepped down. Brett Godfrey, CEO, Virgin Blue Airlines of Australia, joined the group. Mr. Godfrey has over 10 years of airline experience, specifically in the low-cost sector and is a welcome addition to the team. I would like to thank Don for his valued contribution to the Board of Directors over the past several years.

Our success throughout 2006 was not without turbulence. We were reminded of the difficulties of our industry when another competitor withdrew scheduled service in the face of rising costs and other airlines experienced the threat of bankruptcy.

Fluctuations in fuel prices were a challenge for all industries that have a large portion of their costs rooted in the price of oil. We are fortunate that our low-cost structure and our fuel-efficient fleet offset the instability of jet fuel costs throughout the year.

We settled our dispute with Air Canada, ending all legal proceedings between the companies. The settlement resulted in $5 million in legal fees and $10 million being donated, in the name of WestJet and Air Canada, to children's charities across the country.

Throughout 2006, we continued work on our new reservation system. Following the difficult decision, in early 2007, to suspend implementation, we will take part of this year to renegotiate the terms of our agreement. Creating a seamless guest experience is a vital part of our business, one that we will not compromise as we upgrade to a newer version of Open Skies. Our business plan is, and will remain, on track as we add functionality to the system we are currently using.

When I first assumed the role of president, I was most commonly asked, what challenges do you see WestJet facing in the future? My response was that I don't see challenges, I see opportunities. We have the opportunity to define our strategies and remain steadfast in our commitment to creating shareholder value. We have the opportunity to grow and develop exciting new markets and products. And we have the opportunity to attract and retain the best and brightest people through empowerment, accountability and ownership.

We have identified a corporate vision that by 2016 WestJet will be one of the five most successful international airlines in the world providing our guests with a friendly and caring experience that will change air travel forever.

We plan to deliver this vision by focusing on the four most fundamental pillars of our business: revenue, cost, guests and people.

- Our revenue strategy relies on financial performance and growth. We will achieve an average annual compound growth rate in available seat miles of at least 10 per cent, through continued fleet expansion; commercialization of our schedule; expansion of domestic, transborder and international destinations; WestJet Vacations and selling ancillary products and services.
- Our cost strategy is to maintain our low-cost model and grow our margins, having the lowest equivalent sustainable cost per available seat mile, excluding fuel, in North America. We will achieve this through a sustained focus on cost control, cost reduction and increased fleet utilization.
- Our ability to deliver an amazing guest experience is achieved through our industry-leading performance. We will continue to achieve top five North American on-time performance, completion and baggage rates. Moreover, our differentiating service, delivered by our friendly and caring front-line WestJetters, will be nurtured and sustained.
- We will build our unique corporate culture by investing and fostering the growth, development and commitment of our people by providing the proper training and tools and creating a fun and positive work environment. Our competitive compensation plan includes employee profit share and participation in employee share purchase plan.

We look forward to delivering on these objectives throughout 2007.

Looking back on our journey through 2006, I am proud of all we have accomplished. We celebrated 10 years in business and looked back at a decade of service that truly changed Canadian air travel forever. The next 10 years will be just as exciting as we offer our award-winning services in new markets with new products.

PATTI FOWLER | **BRAD FOWLER**
Sales Super Agent | Sales Super Agent

With a commitment to operational improvements, lowering costs and improving profitability, we are striving for financial stability through smooth and turbulent market conditions. We are setting standards that will benefit our shareholders, our people and our guests.

Our 2006 results are a testament to the hard work and dedication of our 5,990 people across Canada. Our company was founded on the principal "take care of the people and they will take care of the guest." Eleven years later, we still find this to be true. We were honoured to be recognized as Canada's Most Admired Corporate Culture for the second year in a row and thank our dedicated WestJetters for their continued commitment.

We would not be where we are today without our shareholders believing in us, our guests choosing to fly with us and our people giving both a reason to do so.

Thank you for your continued support.

SEAN DURFY

President
WestJet Airlines

March 9, 2007

OUR CARING SPIRIT SHONE THROUGH IN 2006. We donated time, money and flights to numerous charities and communities.

If you need assistance, we will be there to help you and not just with blankets and headsets. In 2006, WestJet supported over 800 community initiatives across the country. As usual, we brought caring from 40,000 feet right down to the communities we serve.

LACEY TAYLOR
Property Coordinator

VERN ADAMS
Building Operator

SUPPORTING OUR COMMUNITIES

Financial success is only one leg of WestJet's 2006 journey; the complete picture comes down to people: our WestJetters, our guests and our communities. WestJet's giving is about building partnerships that make an impact on our communities; it is an extension of our brand and representative of our culture and, within it, our commitment to caring.

Our 2006 story would not be complete without a look at our presence in the community and the spirited WestJetters who are giving back.

WestJet's giving first took shape in 1996, providing the gift of flight to various community projects in our five origin cities. Throughout 2006, we supported the fundraising efforts of our 23 Canadian cities by giving the gift of flight to over 700 charities and non-profit organizations.

CHERILYN BELLAMY-FAUCHER
Specialty Sales Agent

TREENA KLAGENBERG
Specialty Sales Agent

Throughout 2006, we supported the fundraising efforts of our 23 Canadian cities by giving the gift of flight to over 700 charities and non-profit organizations.

SUPPORTING CHILDREN'S HEALTH

In 2006, kids and kids' health was identified as the key strategic focus for our community investment program. In 2007, this initiative is growing into a company-wide commitment. Recently re-branded WestJet Cares for Kids, this program supports charities and non-profit organizations that make life easier for seriously ill children and their families; or promote and advocate safe and healthy lifestyles for children and their families. Throughout 2006, WestJet supported organizations such as Hope Air, the Missing Children Society of Canada, CNIB, Shriners Hospital for Children and other children's hospitals.

SUPPORTING OUR PEOPLE

Since the beginning, WestJetters have been carving out their own initiatives. It should come as no surprise that our people, who embody our unique caring spirit, use that same compassion in their community involvement. WestJet's spirit of giving is best exemplified by the hundreds of employee initiatives that support fundraising efforts and local events in their home communities. With such a motivated and generous team of people, WestJet's employee-driven initiatives include: adopting inner-city schools, Big Brothers Big Sisters of Canada, the Boys and Girls Clubs of Canada, CIBC Run for the Cure, the Canadian Red Cross, Kidsport Canada, Relay For Life, food and clothing drives and meals for the homeless.

As our WestJet family continues to grow, so does the diversity of causes in which we get involved. Our people's dedication to spread the WestJet culture has a profound impact on these communities as well as our airline.

SUPPORTING CHILDREN AND YOUTH ACROSS CANADA

In 2006, 178 charitable organizations received a one-time combined total of $10 million for the benefit of children and youth across Canada.

The main recipients of the donations were the Children's Miracle Network, benefiting 14 pediatric hospitals, the Boys and Girls Clubs of Canada Foundation, and the Breakfast Clubs of Canada. A total of 175 other charities also received donations, 86 of which were nominated by WestJetters.

SPONSORSHIPS

WestJet's sponsorships also play an important role in reinforcing our brand, perpetuating our culture and building relationships with our communities. Throughout 2006, we took on some new initiatives.

LEFT TO RIGHT: Teresa DeMare, David Nolsoe, Don Bell, Laurie Yerxa, Jeremiah Gillett, Greg Hunter and Richard Bartrem deliver toys to the Alberta Children's Hospital in Calgary.

SUPPORTING AMATEUR SPORT

Young and proudly Canadian with a dream to succeed, WestJet felt a natural alignment with Canadian amateur sport. We believe the dreams of our Canadian athletes deserve to be supported. Through our partnership with Alpine Canada Alpin and each of Canada's provincial ski organizations, we are the official airline in support of Canada's competitive alpine skiing program through to the 2010 ski season.

SUPPORTING COMMUNITY ARTS & CULTURE

Our Canadian cities play an important role in our airline's success. By supporting some of the premier festivals across Canada, WestJet is sharing its spirit of fun and celebrating local culture that fits with our brand. Now in its second season, the WestJet Fun 'n Festival Series partnered with a number of community events throughout 2006:

- CanWest ComedyFest in Vancouver
- Just For Laughs Festival in Montréal
- Okanagan Wine Festivals
- WestJet Festival of Friends in Hamilton
- Calgary Stampede
- HubCap Comedy Festival in Moncton
- Folklorama in Winnipeg
- Halifax International Busker Festival
- Beaches International Jazz Festival in Toronto

WHAT IS ON THE HORIZON?

As WestJet grows, so will our community investment activity. As we enter new communities, we look forward to developing partnerships and finding ways to engage our people. Our communities and our people put us in the sky; we are honoured to be able to give back on the ground.

WE UPGRADED TO NEXT-GENERATION AIRCRAFT, flying North America's most modern fleet.

We would now like to tell you about some important features of this airline. The most important one is our people (or WestJetters as we like to call them). You can easily locate them – they're the ones with the smiles. The caring treatment that WestJetters provided to our guests in 2006 goes a long way to explain the encouraging results that we will be outlining in the pages ahead.

LILLIANE HRNCIRIK | **CAROL ST. AMOUR**
Payroll, Manager | Payroll, Team Lead

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

2006 AT A GLANCE

WestJet's 2006 financial overview tells a compelling story. Favourable revenue growth, continued cost control and an increasing demand for our product produced consistently strong financial results throughout the year. In 2006, we generated an 11.2% operating margin, 6.8 points higher than in 2005, and one of the best operating margins in the North American airline industry.

Our strong performance began in the first quarter of 2006, with profits that surpassed any other first quarter in our history. The momentum generated from the success of this period carried through to the remaining quarters of the year where we also realized record earnings. We completed the year with net earnings of $114.7 million for the full year 2006.

FORWARD-LOOKING INFORMATION Certain information set forth in this document, including management's assessment of WestJet's future plans and operations, contains forward-looking statements. These forward looking statements typically contain the words "anticipate," "believe," "estimate," "intend," "expect," "may," "will," "should" or other similar terms. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond WestJet's control, including the impact of general economic conditions, changing domestic and international industry conditions, volatility of fuel prices, terrorism, currency fluctuations, interest rates, competition from other industry participants (including new entrants, and generally as to capacity fluctuations and pricing environment), labour matters, government regulation, stock-market volatility and the ability to access sufficient capital from internal and external sources. Readers are cautioned that management's expectations, estimates, projections and assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. WestJet's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. Additional information relating to WestJet, including Annual Information Forms and financial statements, is located on SEDAR at www.sedar.com. To supplement its consolidated financial statements presented in accordance with Canadian generally accepted accounting principles (GAAP), the Company uses various non-GAAP performance measures, including available seat mile (ASM), cost per available seat mile (CASM) defined as operating expenses divided by available seat miles, revenue per available seat mile (RASM) defined as total revenue divided by available seat miles, revenue per revenue passenger mile ("yield") defined as total revenue divided by revenue passenger miles, operating revenues defined as the total of guest revenues, charter and other revenues and interest income, operating margin defined as earnings from operations divided by total revenues, and load factor defined as revenue passenger miles divided by available seat miles. These measures are provided to enhance the user's overall understanding of the Company's current financial performance and are included to provide investors and management with an alternative method for assessing the Company's operating results in a manner that is focused on the performance of the Company's ongoing operations and to provide a more consistent basis for comparison between quarters. These measures are not in accordance with or an alternative for GAAP and may be different from measures used by other companies.

CHARMAINE ARSENAULT
Aircraft Maintenance Engineer

In 2006, we generated one of the best operating margins in the North American airline industry, growing by 6.8 points from 2005. Our focus on cost control is fundamental to our success. We continuously look for ways to keep WestJet's low-cost competitive advantage.

If there's anything we can do to make your investing with us more comfortable, please don't hesitate to ask us at westjet.com.

Our successful efforts to increase value for our shareholders were realized through our improved earnings per share. For the fourth quarter of 2006, diluted earnings per share increased to a record 21 cents, compared to one cent in the same period in 2005. Diluted earnings per share for the entire year was 88 cents compared to 19 cents in 2005.

Our fourth quarter and year-end results can be attributed to a healthy RASM performance, our continuous commitment to cost control and increased productivity through efficient fleet utilization.

Revenue per ASM for the fourth quarter increased to 13.9 cents, a slight change over 2005's 13.6 cent RASM, as expected given our significant capacity increases. For the full year 2006, RASM was up to 14.2 cents from 13.0 cents in 2005. Throughout the year, we have focused on RASM as a key measure for assessing our airline's strength. Our healthy 2006 RASM is most impressive when looked at in conjunction with our full-year capacity increases of 17.3% and load factor improvements of 3.6 points.

In the fourth quarter of 2006, we increased our network capacity by 23.3% to 3.3 billion ASMs, compared to 2.7 billion ASMs in the same period in 2005. We also shifted 12% of our total capacity into our transborder routes at the same time; this was almost double the capacity shift that we performed in 2005 during the same period. Year-end capacity increased to 12.5 billion ASMs compared to 10.7 billion in 2005.

Even with 12 consecutive months of increasing seat capacity in our network, the demand for our product remained strong, as illustrated by our fourth quarter load factor increase to 75.5% from 74.7% in the same period 2005 and our highest annual load factor to date of 78.2%, up 3.6 points from 74.6% in 2005. Demand for our product was further illustrated by improvements in fourth quarter yield, showing a slight improvement of 0.5% increasing to 18.4 cents. Yield for the full-year 2006 increased to 18.1 cents, an increase of 3.4% over 17.5 cents in 2005.

During 2006, we flew 11.2 million segment guests to destinations within Canada and beyond our borders, an 18.5% increase over that of 2005. These numbers are proof of our growing guest base and the market's ability to absorb the additional supply of seats.

Our focus on cost control is fundamental to our success and is a company-wide initiative. We continuously look for ways to keep WestJet's low-cost competitive advantage. As a result of our peoples' efforts, we reduced our fourth quarter CASM by 6.1% from the same quarter in 2005 and successfully maintained our 2006 full-year CASM at 12.6 cents, a less than one per cent increase over 12.5 cents in 2005. We are particularly pleased that these full-year costs were achieved in the face of higher

fuel prices that continued to place uncontrollable pressure on our operating costs. Excluding fuel, our CASM in the last quarter of 2006 decreased by 3.6% to 9.3 cents compared to 9.7 cents in the fourth quarter of 2005. For the whole of 2006, our CASM excluding fuel remained consistent with 2005, at 9.2 cents.

We began 2006 with the strategically planned retirement of our remaining 737-200 aircraft, leaving us with the youngest fleet operated by any large North American commercial airline. In January 2006, our fleet consisted of 54 aircraft. We retired our last three 200-series aircraft early in the year and continued to expand our fleet with the addition of 10 737-600s and two 737-700s, bringing our total registered fleet at year-end 2006 to 63 Next-Generation aircraft.

These aircraft allowed us to further develop our route network across Canada, the United States and to our first international destination, Nassau, Bahamas, in November 2006. By adding these aircraft into our scheduled network, we increased our capacity by 17.3%, as measured by available seat miles. Our growth strategy relies on increasing our network capacity through the addition of aircraft, as well as increasing the utilization of our aircraft on a daily basis to maximize productivity.

SELECTED ANNUAL AND QUARTERLY INFORMATION

The tables below ("Annual Audited Financial Information" and "Quarterly Unaudited Financial Information") set forth selected data derived from our consolidated financial statements for the three years ended and the eight previous quarters ended December 31, 2006. These tables have been prepared in accordance with Canadian generally accepted accounting principles and are reported in Canadian dollars. This information should be read in conjunction with the consolidated financial statements for the year ended December 31, 2006, and related notes thereto.

Annual Audited Financial Information (IN MILLIONS EXCEPT PER SHARE DATA)

	2006	2005	2004
Total revenues	$ 1,774	$ 1,393	$ 1,057
Net earnings (loss)	$ 115	$ 24	$ (17)
Basic earnings (loss) per share	$ 0.88	$ 0.19	$ (0.14)
Diluted earnings (loss) per share	$ 0.88	$ 0.19	$ (0.14)
Total assets	$ 2,727	$ 2,213	$ 1,877
Total long-term liabilities[1]	$ 1,461	$ 1,180	$ 1,020
Shareholders' equity	$ 806	$ 670	$ 590

(1) Long-term liabilities include current and long-term portions of long-term debt and obligations under capital leases and other liabilities.

Quarterly Unaudited Financial Information (IN MILLIONS EXCEPT PER SHARE DATA)

	Three Months Ended			
	Dec. 31, 2006	Sept. 30, 2006	June 30, 2006	Mar. 31, 2006
Total revenues	$ 460	$ 502	$ 425	$ 387
Net earnings	$ 27	$ 53	$ 22	$ 13
Basic earnings per share	$ 0.21	$ 0.41	$ 0.17	$ 0.10
Diluted earnings per share	$ 0.21	$ 0.41	$ 0.17	$ 0.10

	Three Months Ended			
	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005	Mar. 31, 2005
Total revenues	$ 367	$ 406	$ 326	$ 294
Net earnings (loss)	$ 1	$ 30	$ 2	$ (10)
Basic earnings (loss) per share	$ 0.01	$ 0.24	$ 0.02	$ (0.08)
Diluted earnings (loss) per share	$ 0.01	$ 0.23	$ 0.02	$ (0.08)

Our business is seasonal in nature with varying levels of activity throughout the year. We experience increased domestic travel in the summer months (second and third quarters) and more demand for transborder and charter sun destinations over the winter period (fourth and first quarters). With the introduction of our first transborder destination in September 2004, we have been able to somewhat alleviate the affects of seasonality on our net earnings. In 2006, we focused on allocating our network capacity to our domestic and transborder markets as appropriate based on demand in the season.

In the quarter ended March 31, 2005, we reported a net loss of $9.6 million as a result of the impact of lower fares throughout the domestic airline system driven by intense competition and extremely high fuel prices. This created a high-cost and low-yield environment. Market rationalization was reinstated at the end of March 2005 when Jetsgo ceased operations. This materially changed our operating environment and we began to witness significant improvements in our yield.

YEAR 2006 COMPARED TO YEAR 2005

REVENUE

	Three Months Ended December 31			Twelve Months Ended December 31		
RASM (in cents)	2006	2005	% Change	2006	2005	% Change
Guest revenues	12.40	12.18	1.81%	12.44	11.31	9.99%
Charter and other	1.33	1.38	(3.62%)	1.61	1.68	(4.17%)
Interest income	0.13	0.08	62.50%	0.11	0.06	83.33%
	13.86	13.64	1.61%	14.16	13.05	8.51%

Our 2006 fourth quarter operating revenues increased to $459.6 million, compared to $366.8 million in the same period 2005. Full-year operating revenues increased to $1.8 billion during 2006, a 27.4% increase over that of 2005. The increase in guest revenues was driven by a fourth quarter capacity increase of 23.3% to 3.3 billion ASMs and a full-year increase of 17.3% to 12.5 billion ASMs. Our ability to fill these seats came from marketing efforts, our ability to match our capacity to the demands of our guests and our exceptional guest service that continues to build brand loyalty and repeat business.

Our charter and other revenues per ASM decreased slightly for both the full year and quarter ended December 31, 2006, primarily due to an increase in our scheduled transborder operations during these periods relative to our charter network. We also generated non-transportation revenues from interest income. Interest income during the year and fourth quarter 2006 increased as a result of our higher cash balance.

Ancillary revenues provide an opportunity to maximize our profits through higher margin items while enhancing our overall guest experience. We generate ancillary revenue primarily from fees associated with guest itinerary changes, excess baggage fees, buy-on-board food sales and headset sales. In 2006, ancillary revenues grew by 67.6% over 2005 to $74.8 million.

A significant revenue initiative we undertook during 2006 was the launch of a wholly owned subsidiary of WestJet Airlines Ltd., WestJet Vacations Inc. offering guests packaged vacation options that may include hotels, car rentals, attractions and insurance. WestJet Vacations leverages our aircraft, schedule and renowned guest experience while operating in the same low-cost manner. Fully operational in September, WestJet Vacations surpassed forecasted expectations for 2006.

During the year, we focused our strategy around seasonal capacity adjustments. Shifting our capacity to higher-demand markets, based on the seasonal demand for those routes, has become an important part of our deployment strategy. Typically, there is a natural decline in domestic travel during the winter months, which fall within the first and fourth quarters of our fiscal year. During these slower times, we capitalize on the ability of our sunny transborder destinations to attract leisure travellers that want to escape the Canadian winter months. Our ability to maximize fleet efficiency through diligent network management has directly contributed to our noteworthy operating margin performance throughout 2006.

Along with careful planning of our routes, fleet optimization was another focus in 2006, and contributed to the overall productivity of our airline. During the year, we increased our aircraft utilization by 5.3% to 11.9 operating block hours per day compared to 11.3 operating block hours per day in 2005. Increasing the utilization of our aircraft increases our revenue-generating potential and allows us to gain cost efficiencies.

EXPENSES

Cost Per Available Seat Mile (CASM) (IN CENTS)

	2006	2005	2004	2003	2002
Aircraft fuel	3.40	3.32	2.69	2.27	2.40
Airport operations	2.09	2.05	1.94	1.78	1.90
Flight operations and navigational charges	1.83	1.72	1.66	1.53	1.63
Sales and marketing	1.24	1.16	0.95	0.84	0.96
Depreciation and amortization[1]	0.89	1.00	0.88	0.92	1.13
General and administration	0.64	0.67	0.70	0.70	0.92
Aircraft leasing	0.57	0.62	0.46	0.64	0.77
Interest expense	0.56	0.52	0.49	0.36	0.16
Maintenance	0.56	0.67	0.85	1.06	1.69
Inflight	0.54	0.50	0.49	0.47	0.59
Guest services	0.25	0.26	0.26	0.32	0.43
	12.57	12.49	11.37	10.89	12.58
CASM, excluding fuel	9.17	9.17	8.68	8.62	10.18

[1] For comparative purposes, the impairment loss of $47,577,000, related to the early replacement of our 737-200 aircraft, included in depreciation and amortization expense has been excluded from unit-cost calculations for 2004.

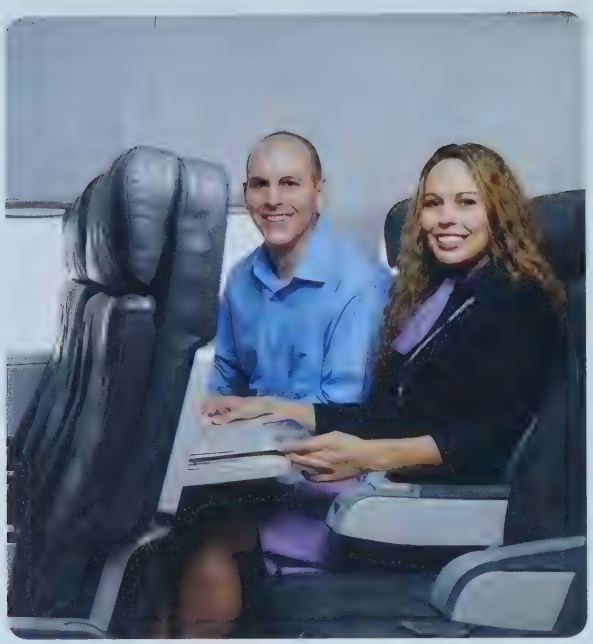
Cost Per Available Seat Mile (IN CENTS)

	Three Months Ended December 31			Twelve Months Ended December 31		
CASM (in cents)	2006	2005	% Change	2006	2005	% Change
Aircraft fuel	3.21	3.68	(12.77%)	3.40	3.32	2.41%
Airport operations	2.14	2.10	1.90%	2.09	2.05	1.95%
Flight operations and navigational charges	1.88	1.77	6.21%	1.83	1.72	6.40%
Sales and marketing	1.26	1.38	(8.70%)	1.24	1.16	6.90%
Depreciation and amortization	0.91	1.03	(11.65%)	0.89	1.00	(11.00%)
General and administration	0.66	0.73	(9.59%)	0.64	0.67	(4.48%)
Aircraft leasing	0.53	0.72	(26.39%)	0.57	0.62	(8.06%)
Interest expense	0.58	0.55	5.45%	0.56	0.52	7.69%
Maintenance	0.53	0.59	(10.17%)	0.56	0.67	(16.42%)
Inflight	0.56	0.51	9.80%	0.54	0.50	8.00%
Guest services	0.26	0.28	(7.14%)	0.25	0.26	(3.85%)
	12.52	13.34	(6.15%)	12.57	12.49	0.64%

Keeping costs low is a key component of our business model and has played an important role in our ability to generate industry-leading operating margins during 2006. Part of our competitive advantage is our ability to operate with costs below that of our competitors. We have achieved strong bottom-line performance by continually striving for efficiencies in our operations.

Our longer average stage length, which increased to 833 miles from 802 miles in 2005, has played a role in creating cost efficiencies. Defined as the average distance of a flight between takeoff and landing, average stage length has a significant impact on our unit costs. As it increases, cost efficiencies are gained and we achieve a lower average cost per mile. This is because our fixed costs of operations are shared over an increasing number of miles flown.

On a stage length adjusted basis, we estimate our CASM should have decreased by 2.1% to 12.2 cents per ASM. Increases in costs were driven primarily by uncontrollable higher fuel costs, airport operations and increases in certain direct fixed costs impacted by new initiatives undertaken during the year. These initiatives typically are intended to enhance our long-term business objectives, such as incentive programs implemented to increase travel agent and corporate sales and an enhanced compensation structure under our new pilot agreement.



RICHARD PRIEBE
Senior Financial Accountant

THERESA NORDMARK
Financial Reporting, Administrative Assistant

We successfully managed high fuel costs through operating efficiencies inherent in our infrastructure. One of our most significant cost advantages is that we operate the youngest fleet operated by any large North American commercial airline.

AIRCRAFT FUEL

In 2006, the average price of oil increased by 17% over 2005 to WTI US $66.10 per barrel, which increased our fuel CASM by 0.2 cents during 2006. However, as a result of internal cost-saving efforts and the strengthening Canadian dollar, our realized cost of fuel per litre increased at a lower rate of 7.5%, to 68.9 cents per litre compared to 64.1 cents in 2005. Similarly, our fuel CASM increased at a slower pace, by only 2.4% to 3.4 cents from 3.3 cents in 2005.

We successfully managed high fuel costs through operating efficiencies inherent in our infrastructure. One of our most significant cost advantages is that we operate the youngest fleet of any large North American commercial airline, comprised of fuel-efficient Boeing Next-Generation aircraft. Furthermore, we have implemented fuel conservation programs throughout our operations to minimize the impact of increasing energy costs. Our larger 700-series and 800-series aircraft are all equipped with blended winglet technology that further improves the fuel efficiency of these new aircraft. Along with increasing the efficiency of our productive assets, our pilots and ground handlers contribute to daily fuel cost-saving efforts to minimize fuel consumption.

Our 3.9% longer average stage length in 2006 contributed to increased fuel efficiency. Longer-haul routes typically achieve higher fuel economy as we are able to absorb the higher costs of fuel for takeoffs and landings over a longer trip length.

While oil prices did decline in the last three months of 2006 from the elevated levels we experienced throughout the year, prices in this period remained at about the same levels as that of the fourth quarter of 2005. During the last quarter of 2006, the price of fuel was WTI US $60.09 per barrel, which is only slightly higher than the price in the same quarter of 2005 at WTI US $60.03 per barrel. However, the fourth quarter of 2005 was weathering the effects of hurricanes Rita and Katrina which impaired refinery utilization, and consequently the supply of US Gulf Coast (USGC) jet fuel. In the fourth quarter of 2005, the US-dollar price of USGC per barrel was 9.3% higher when compared to the average price in the last three months of 2006. As a result, our aircraft fuel cost per ASM was lower by 12.8% to 3.2 cents during the fourth quarter of 2006 compared to the same period in 2005. Similarly, our fuel cost per litre during the fourth quarter of 2006 decreased by 13.1% over the same period in 2005.

In 2007, we estimate our sensitivity to changes in jet fuel costs is approximately CAD $7 million for every one-cent-per-litre change in the price of jet fuel (e.g., $0.69 to $0.68).

AIRPORT OPERATIONS

Our airport operations encompass costs associated with landing and terminal fees, ground handling and onboard services, such as buy-on-board food. Airport CASM increased 2.0% in 2006 to 2.09 cents from 2.05 cents. For the three months ended December 31, 2006, the CASM for airport operations increased by 1.9% over the same period in 2005.

In 2006, costs per departure increased 6.7% over 2005's costs, primarily driven by our increased transborder flights; utilization of larger aircraft which drove higher fees; and an increased number of flights flying into one of the busiest and most costly airports in the world, Toronto's Lester B. Pearson International Airport.

Fee increases imposed by our airport and ground-handling partners impacted us on average by approximately 6%. These costs were further magnified by our expanding international charter and transborder operations, where the number of departures grew by 7.9% in 2006 over 2005 and are charged higher rates and fees compared with our domestic operations. Our cost per departure for transborder and charter operations is approximately 263% higher than that of our domestic flights.

Despite higher fees and costs per departure, our airport CASM grew at a lesser rate primarily as a consequence of the increase in our average stage length.

Airport operations make up one of our largest costs, representing approximately 17% of our total operating expenditures. As we continue to expand our transborder and international network, these expenses will continue to be significant to our operations. In order for us to properly manage these costs, generally controlled by airport authorities, we continually look for ways we can improve productivity and reduce operational costs while at the same time increasing the convenience to our guests. We do this by seeking opportunities to automate our airport operations, offering our guests convenient online check-in services for destinations within Canada, as well as equipping most of our airports with self-service kiosks.

The rise in unit costs for the quarter can be attributed to an increase in our system-wide weighted average airport rates and fees increasing by approximately 6%. Our transborder and charter activity incur higher airport fees than our Canadian operations, and the higher terminal and landing fees associated with operating our larger 700-series and 800-series aircraft also contributed to higher unit costs.

We are encouraged by the slowing pace of airport rates and fee increases that we witnessed in 2006, as well as this continuing trend in 2007 – based on the fee schedule released in January 2007.

FLIGHT OPERATIONS

Our flight operations are largely driven by the cost to compensate our pilots, including salaries, training and stock option expense. Our CASM for flight operations increased by 18.6% during the fourth quarter and 15.4% for the full year 2006, over the same periods in 2005. The increase in these costs is primarily due to a new pilot agreement designed to improve our pilots' compensation structure and increase productivity. Approved in the beginning of the year, this agreement allows our pilots to elect to receive a certain amount of cash in lieu of a selected portion of their stock options. In addition to the operational benefits we derive from this new agreement, we also benefit from the tax deductibility of the elected cash outlay, whereas we do not realize any tax benefits from stock-based compensation expense.

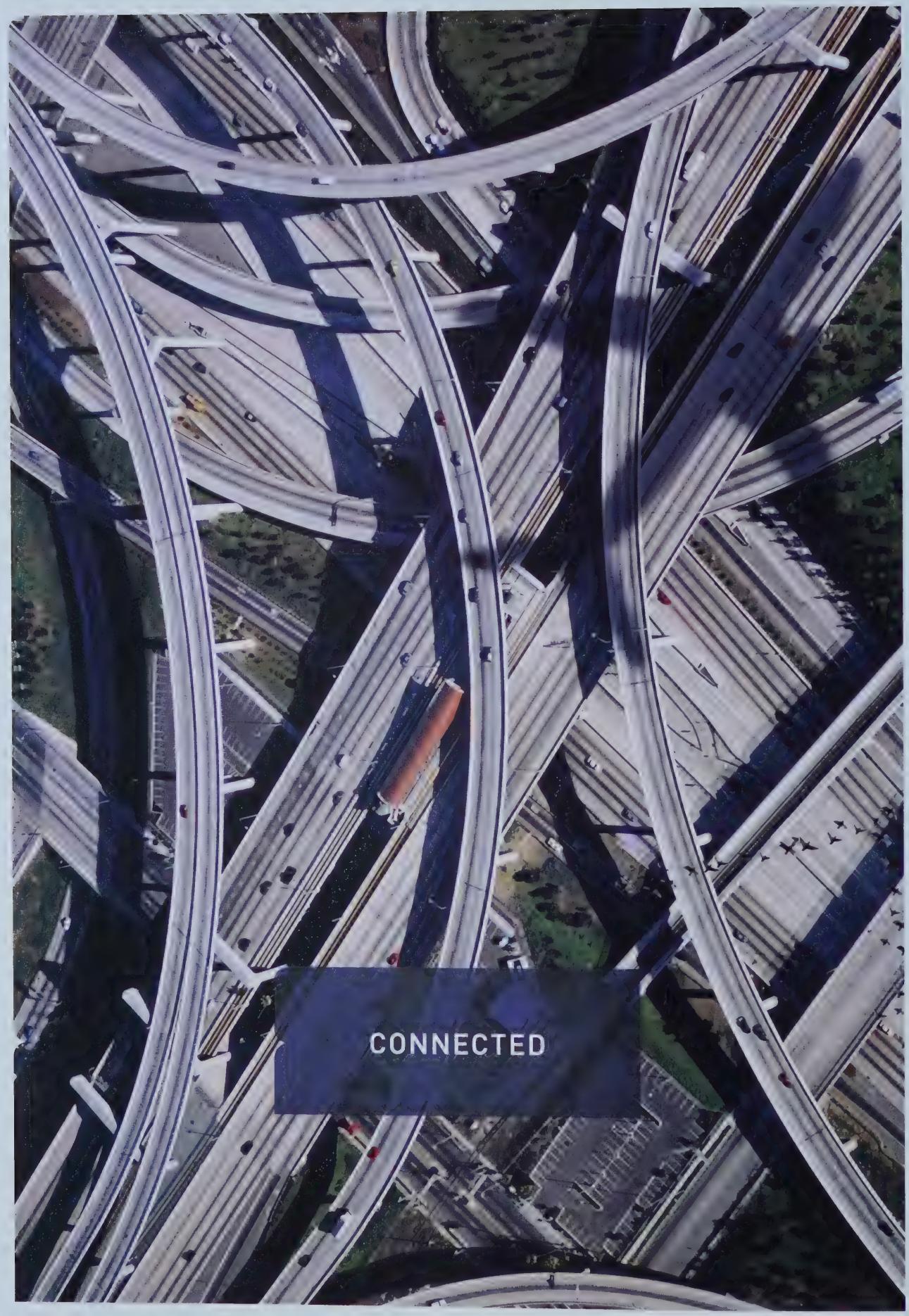
In the first year of this new agreement, we incurred both a cash expense, for the cash-elected portion under the new agreement, as well as stock-based compensation expense related to the options that were granted to all pilots in May of 2006 under the terms of the old pilot agreement. As a result, in addition to stock-based compensation expense, we incurred a cash expense of $10.2 million and $3.8 million at year-end and in the fourth quarter of 2006, respectively. Commencing in 2007, we expect our stock-based compensation expense to decrease as a result of the lower number of options issued due to pilots electing to receive greater cash compensation in the first year of the new agreement. In 2006, we recognized $21.2 million in stock-based compensation expense, an increase of 20.5% as compared to $17.6 million in 2005.

NAVIGATIONAL CHARGES

Air navigational charges are predominantly driven by the size of aircraft and distance flown, and are administered on a per-flight basis. On a per-departure basis, Nav Canada and FAA costs rose 3.3% in 2006 over 2005, driven by higher fees associated with operating larger Next-Generation 737 aircraft and our 3.9% increase in average stage length. On a per-ASM basis, our year-over-year navigational charges have declined by approximately 1%, primarily as a result of the growth in our network capacity outpacing the increase in our number of flights.

SALES AND MARKETING

Sales and marketing encompasses a wide variety of expenses related to advertising and promotions, travel agency commissions, corporate incentive programs, credit card fees, global distribution system costs, the AIR MILES® reward miles program costs, and live satellite television licensing fees. CASM for sales and marketing expenses increased 6.9%, from 1.16 cents in 2005 to 1.24 cents in 2006.



WE BRING PEOPLE TOGETHER with our 35-city North American and Caribbean network.

In 2006, we increased our efforts to attract sales from corporate customers. Business travellers are an important guest segment for our airline as they are more likely to travel several times throughout the year, they tend to purchase fares closer to the date of travel that have higher margins and are typically less price sensitive than leisure travellers. In times of economic uncertainty or a sharp decline in consumer confidence, the amount of leisure travel typically declines while business travel remains more stable. To increase our corporate sales, we offer incentive programs that encourage corporations to reach targeted purchase volumes in order to receive discounted fares.

Sales and marketing CASM for the fourth quarter of 2006 decreased by 8.7% when compared to the last three months of 2005, resulting from a decrease in advertising and promotions costs in the current period. In the later part of 2005, we initiated our WestJet "Owners" campaign to refresh our brand awareness across Canada. We are pleased with the positive response we have received from this campaign from both our WestJetters and our guests.

DEPRECIATION AND AMORTIZATION

In 2006, our depreciation and amortization expense per unit decreased 11.0% to 0.89 cents, compared to one cent in 2005, and declined by 11.7% in the fourth quarter of 2006 compared to the same period in 2005. With the stronger Canadian dollar, our depreciation expense, which is based on a dollar rate per cycle determined using the cost of the aircraft net of residual value, has declined. In addition, we incurred one-time adjustments related to the early retirement of our 737-200 capital leases in the fourth quarter of 2005.

GENERAL AND ADMINISTRATION

General and administrative costs pertain to our accounting, treasury, audit and advisory services, information technology, legal, "people" (human resources), procurement and logistics and facilities teams. Also included in these costs are executive compensation, professional fees and insurance.

In 2006, total general and administrative costs decreased 4.5% over 2005 and declined by 9.6% during the last three months of 2006 compared to the same quarter in 2005. Unit cost reductions during these periods were driven primarily by reduced legal fees incurred from the settlement of our lawsuit with Air Canada in May 2006.

Operational Performance

Our 2006 operational performance was among the top five for North America*

- On-time Performance 81.7% – ranking second in North America
- Completion Rate 99.5% – ranking second in North America
- Baggage Handling: 4.64/1000 bags that did not arrive with the guest at their destination – ranking fourth in North America

*Out of 20 airlines in the U.S. that report.

AIRCRAFT LEASING

Our most significant infrastructure cost is our aircraft. To support our growth initiatives, we investigate various alternatives for financing, with the intention of achieving optimal balance sheet flexibility while realizing the benefits of low-cost financing. Leasing is often an attractive alternative to debt-financed aircraft for reasons such as alleviation of obsolescence risk and the significantly reduced upfront cash outlay being required to fund deposits on purchased aircraft.

Aircraft leasing costs, on a CASM basis, decreased 8.1% in 2006 compared to 2005, and also decreased by 26.4% in the fourth quarter of 2006 versus the same quarter in 2005. The decline in our aircraft leasing costs was driven primarily by the dilution of these costs over a greater number of available seat miles. In 2006, we operated the full year with 18 Next-Generation aircraft financed under operating lease arrangements, comprised of 13 737-700s and five 737-800s. In 2007 through to 2009, we have committed to lease an additional 11 737-700s and two 737-800s, for terms ranging from eight to 10 years, in US dollars.

INTEREST EXPENSE

Owning newer aircraft does carry higher ownership costs; however, the benefits gained from operating such aircraft offset these increased costs through higher productivity, improved fuel efficiency and lower maintenance costs.

On a per-ASM basis, our interest expense increased by 7.7% in 2006 to 0.56 cents for the year, compared to 0.52 cents per ASM in 2005. This increase is primarily due to the additional $418.6 million in debt that we incurred in 2006 to support the acquisition of 12 new Next-Generation aircraft. All long-term debt related to the financing of our Next-Generation aircraft, which accounts for 97% of our total long-term debt, is financed

on a fixed-rate basis in Canadian dollars at an average rate of 5.3%. The fixed-rate nature of our financing eliminates the risk of interest-rate fluctuations over the life of the debt. In addition, the ability to finance the US-dollar purchase price of these aircraft with Canadian-dollar debt eliminates our foreign currency exposure over the term of the debt.

MAINTENANCE

Maintenance costs per ASM decreased 16.4% to 0.56 cents in 2006 from 0.67 cents in 2005. During the fourth quarter of 2006, our maintenance CASM decreased by 10.2% to 0.53 cents over the same period in 2005. The decrease in our unit maintenance costs can be attributed to operating an overall younger fleet of aircraft compared to 2005. In January of 2006, we retired the last of our 200-series aircraft, leaving us with a fleet comprised of only new Boeing Next-Generation aircraft. At the end of 2006, the average age of our fleet was 2.5 years compared to 4.3 years in 2005.

We realize significant unit cost reductions and increased efficiencies when operating these new aircraft compared to our older 737-200 series aircraft. As a result of the increased seat capacity of these aircraft, higher daily utilization capabilities and their ability to fly longer distances, economies of scale are realized with regards to fixed and cycle-driven maintenance costs incurred on these aircraft.

While the retirement of our older 200-series aircraft in early 2006 drove the decrease in our overall unit maintenance costs over the preceding year, we witnessed a slight increase in maintenance cost per block hour on our owned 737-700s because the warranties on some of these aircraft expired during 2006. By the end of 2006, 31% of our owned Next-Generation aircraft were no longer protected under warranty. Over the course of 2007, a further 11 aircraft will be coming off of warranty.

Although we anticipate our unit maintenance costs will increase as more aircraft come off warranty, the lower interest costs we will realize on these aircraft over the course of ownership will mitigate this increase as their debt is being paid down on a straight-line basis.

INFLIGHT

Inflight expenses consist of the wages, benefits and training for our team of flight attendants. Cost per ASM increased by 9.8% when comparing the fourth quarter of 2006 to 2005, and increased 8.0% in 2006 to 0.54 cents from 0.50 cents in 2005. Annual salary increases and the increase in our aircraft utilization, from 11.3 block hours in 2005 to 11.9 block hours in 2006, drove an increase in this cost category. Furthermore, the number of crew hours worked as a result of this greater utilization increased our inflight CASM.

GUEST SERVICES

Our commitment to guest service encompasses a strong focus on enhancing the overall experience of our guests at every point of contact, from the time of booking their flights to reaching their final destination. Guest service expenditures include the costs of our Sales Super Centre and our Customer Care team.

Our total 2006 CASM relating to guest service slightly decreased by 3.9% to 0.25 cents over the full-year 2005 and declined by 7.1% during the fourth quarter of 2006 versus the same quarter in 2005. Operating on time is a critical component to our guest experience. During 2006, we focused on implementing processes to improve our on-time performance. As a result of successful on-time performance improvement, we reduced our costs related to compensating our guests for the consequences of delayed flights, such as re-accommodations and meal-cost reimbursements.

In 2006, our number of total guests delayed by more than two hours decreased by 20% over 2005. Similarly, during the fourth quarter of 2006, 26% fewer guests were delayed on the same basis. Being able to improve these operating statistics while at the same time moving 18.5% more guests in 2006 compared to 2005 is a commendable accomplishment for our operations team.

In 2006, 81.7% of our flights arrived within 15 minutes of their scheduled time, while 81.4% arrived within the same time frame in the fourth quarter. Our performance over the previous year showed great improvement where 67.9% of our flights arrived within 15 minutes of schedule in the fourth quarter and 76.3% for the full year. While our operational team maintains a high commitment to ensure our guests reach their destinations on time, we never let this objective compromise our safety standards.

Our Sales Super Agents also strive to provide the highest standard of customer service to our guests. In 2006, our Sales Super Centre was named the Best Call Centre in the country in an airline phone survey conducted by Canadian Business Magazine's consumer reports department. The survey focused on the quality of customer service in addition to phone wait times. To support guest-focused service, we grade our agents based on friendliness, knowledge and the ability to take control of the call. We reward our agents on the quality of guest service they provide to our guests through a performance-based pay system which not only encourages excellent customer service standards but also improves productivity.

RESERVATIONS SYSTEM

In January 2007, we entered into an agreement with a service provider to suspend the current aiRES contract in order to negotiate an amendment to this contract for the successful delivery of their aiRES reservation system. As at December 31, 2006, we had $31.9 million capitalized, related solely to the aiRES project. If WestJet and the service provider can not come to an agreement by May 31, 2007, the parties will each be in a position to proceed with claims against each other, and there is the potential of a one-time write-off of this amount.

On December 22, 2006, we entered into a support agreement with a service provider, effective through December 2008. This support agreement will provide us with a supported upgraded version of our current Open Skies reservation and distribution system. Further, it will provide us with the functionality required to deliver our growth strategy and business plans during the interim period while we seek to amend our agreement with the service provider.

While we are committed to completing the aiRES project, uncertainty does remain, the outcome of which may impact the future recoverability of the project and have a significant impact on the financial statements of future periods.

COMPENSATION

Our compensation philosophy is designed to align corporate and personal success. We have implemented a compensation plan that allows expenditures associated with labour to adjust with the variability in our financial success. Our compensation strategy encourages employees to become owners in our company, which inherently creates a personal vested interest in our accomplishments. Consequently, our people have the opportunity to improve their compensation through our profit sharing and employee share purchase plan.

A significant component of our compensation structure is the employee share purchase plan (ESPP), which allows employees to participate in our company's success. Our ESPP is embraced by our people, as evidenced by 81% of our eligible employees participating in this program, at the end of 2006. WestJetters can contribute up to 20% in the ESPP, on average they currently contribute 13% of their base wage. In order to encourage WestJetters to participate, we match every dollar contributed by employees to purchase our shares. Our matching expense in 2006 was $28.2 million, a 30.1% increase from 2005's $21.7 million.

The profit share system is a variable cost that is reduced and adjusted in less profitable times. Conversely, in good years, profit share will generously reward employees. Our average WestJetter received approximately 8.2% of their base pay as profit share for 2006.

GUY CHABOT
Captain

In 2006, our Super Sales Centre was named the Best Call Centre in the country in an airline survey conducted by Canadian Business Magazine.

ALISON BRITTON
Compensation Coordinator

NANCY EATON-DOKE
Compensation Coordinator

Our compensation strategy encourages employees to become owners in our company which inherently creates for them a vested interest in our accomplishments.

The profit share provision amounted to $20.3 million in 2006, a 236.2% increase over the $6.0 million in the previous year, which was directly attributable to our increased pre-tax margin.

FOREIGN EXCHANGE

On average, the Canadian dollar was stronger during 2006 compared to 2005, ending the year at $0.86, relative to the US dollar. WestJet's exposure to the US dollar primarily relates to aircraft lease payments, jet fuel, airport operations at our U.S. destinations and certain maintenance costs.

To minimize our risk in foreign-exchange movements related to our US-dollar operating expenditures, we carry US-dollar cash and cash equivalents to meet these obligations. On average, we had a balance of approximately US $37 million in cash and cash equivalents on hand throughout the year.

We estimate that for every $0.01 movement in the Canadian dollar in relation to the US dollar (e.g., $0.86 to $0.85), our pre-tax operating expense would change by approximately $5.4 million.

INCOME TAXES

Our operations span several tax jurisdictions, which subjects our income to various rates of taxation. As such, the computation of the provision for income taxes involves judgments based on the analysis of several different pieces of legislation and regulations.

Our effective consolidated income tax rate for 2006 was approximately 30% of earnings before income taxes, which was lower than expected. During the second quarter of 2006 the federal government, along with several provincial governments, substantively enacted corporate tax rate reductions. The revaluation of our future tax liability resulted in an approximate $11.3 million recovery of future income tax expense. The federal government also eliminated the large corporations' tax, effective January 1, 2006, which helped reduce our 2006 cash tax obligation. Overall, the reductions in tax rates were offset by higher earnings which led to an increase in a total income tax expense of $21.8 million as compared to 2005.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Our notable financial performance in 2006 resulted from our ongoing efforts to build infrastructure, manage risk, prepare for opportunities and secure our competitive advantage and reputation in our industry's rapidly changing environment.

In an industry highly sensitive to unpredictable circumstances, such as increasing energy prices, maintaining a strong financial position is imperative to our long-term success. Through our cautious financial management, we have maintained one of the most favourable balance sheets in the airline industry.

We realized a significant growth in our cash position by the end of 2006, completing the year with a cash balance of $377.5 million compared to $259.6 million in 2005. At year-end 2006, our working capital ratio strengthened to 1.0 from 0.8 in 2005.

Our cash position from the previous year was boosted by a $336.2 million inflow from operations, an increase of $88.8 million over 2005. These results were driven by our strong operating margins in 2006 that were generated from our careful route planning and continued cost-containment efforts.

One of the major challenges that airlines face is the high cost of capital. Having sufficient access to capital is critical in order to facilitate our planned growth. At the same time, we require the flexibility and resources to take advantage of unforeseen opportunities as they arise. In addition to having strong cash liquidity, we have been successful in financing our growth through aircraft acquisitions financed by low-interest-rate debt supported by the Export-Import Bank of the United States (Ex-Im Bank) commitments. To secure our future growth, we have a preliminary commitment with Ex-Im Bank for US $240.2 million for the purchase of seven aircraft deliveries in 2007 and 2008.

During 2006, we acquired 12 aircraft supported by loan guarantees from Ex-Im Bank. These loan guarantees from the U.S. government represents approximately 85% of the purchase price of these aircraft. In 2005, we completed financing arrangements for the purchase of six aircraft, delivered between February and June 2006. During 2006, we completed financing arrangements for US $191.1 million supported by loan guarantees from the Ex-Im Bank. This was for the acquisition of five Boeing Next-Generation 737-600 aircraft and one 737-700 aircraft, and their related live satellite television systems. By the end of 2006, we took delivery of all 12 aircraft under these facilities and have drawn a total of CAD $409.6 million (US $360.6 million) at an average fixed rate of 5.2%. This financing activity brings the cumulative number of aircraft financed with loan guarantees to 45, with an outstanding debt balance of $1.4 billion associated with those aircraft. All of this debt has been financed in Canadian dollars at fixed rates ranging from 4.62% to 5.98%, thus eliminating all future foreign exchange and interest rate exposure on these US-dollar aircraft purchases.

To facilitate the financing of our Ex-Im Bank supported aircraft, we utilize four special-purpose entities. We have no equity ownership in the special-purpose entities; however, we are the beneficiary of the special-purpose entities' operations. The accounts of the special-purpose entities have been consolidated in the financial statements.

In 2006, we spent $480.0 million related to capital investments primarily for the planned acquisition of 12 new aircraft throughout the year, under our purchase commitment with Boeing. In addition to completed aircraft acquisitions, we have also made upfront cash deposits for progress payments on future aircraft deliveries. By the end of 2006, our total cash deposits held with Boeing totalled US $31.7 million. Other capital expenditures relate primarily to information technology and miscellaneous aircraft parts.

On February 26, 2007, we filed a notice with the Toronto Stock Exchange (the "TSX") to make a normal course issuer bid to purchase outstanding shares on the open market. As approved by the TSX, we are authorized to purchase up to 2,000,000 common voting shares or variable voting shares (collectively "shares") (representing approximately 1.5% of our currently issued and outstanding shares) during the period of February 28, 2007, to February 27, 2008, or until such earlier time as the bid is completed or terminated at the option of WestJet. Any shares we purchase under this bid will be purchased on the open market through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under the bid will be cancelled. We believe that, from time to time, the market price of our shares may not reflect their underlying value. At such times, the purchase of shares for cancellation will be advantageous to shareholders by increasing the value of shares remaining. The purchase of shares will also offset the dilutive affect of the issuance of shares pursuant to the exercise of stock options.

As at February 28, 2007, we had 125,241,548 common voting shares outstanding, 4,608,800 variable voting shares outstanding and 14,189,654 stock options outstanding.

CONTRACTUAL OBLIGATIONS, OFF-BALANCE-SHEET ARRANGEMENTS AND COMMITMENTS

Our contractual obligations for each of the next five years, which do not include commitments for goods and services required in the ordinary course of business, are indicated in the table below (see "Contractual Obligations").

Contractual Obligations (THOUSANDS)

	Total	2007	2008	2009	2010	2011	Thereafter
Long-term debt repayments	$ 1,444,856	$ 153,720	$ 161,425	$ 145,593	$ 144,877	$ 157,466	$ 681,775
Capital lease obligations[1]	2,068	444	444	444	698	38	—
Operating leases[2]	1,237,791	102,375	118,338	137,906	141,627	139,453	598,092
Purchase obligations[3]	301,517	177,776	117,543	6,198	—	—	—
Total contractual obligations	$ 2,986,232	$ 434,315	$ 397,750	$ 290,141	$ 287,202	$ 296,957	$ 1,279,867

(1) Includes weighted average imputed interest at 5.29% totalling $229,000.

(2) Included in operating leases are US-dollar operating leases primarily related to aircraft. The obligations of these operating leases in US dollars are: 2007 – $76,430,000; 2008 – $92,673,000; 2009 – $114,343,000; 2010 – $119,154,000; 2011 – $119,067,000; 2012 and thereafter – $500,035,000.

(3) Relates to purchases of aircraft, live satellite television systems and winglets.

We currently have 18 Next-Generation aircraft under operating leases. We have entered into agreements with independent third parties to lease 11 additional 737-700 aircraft over eight- and 10-year terms in US dollars and two 737-800 aircraft over a 10-year term, to be delivered throughout 2007 to 2009. These amounts have been included at their Canadian-dollar equivalent in the table above. Although the current obligations related to our aircraft operating agreements agreements are not recognized on our balance sheet, we include these commitments in assessing our overall leverage. Our debt-to-equity ratio, including off-balance-sheet debt of $442.3 million, was 2.3 to 1 at the end of 2006 compared to 2.5 to 1 at the end of 2005, which is well within our self-imposed range of acceptable debt-to-equity ratios. Although we have increasing debt obligations from new aircraft purchases, we have successfully maintained an enviable debt-to-equity ratio that reflects our ability to effectively manage our balance sheet.

CONTINGENCIES

On April 4, 2004, Air Canada commenced a lawsuit against WestJet. Air Canada claimed damages in the amount of $220 million in an amendment to its statement of claim. On May 29, 2006, as a full settlement, we agreed to pay Air Canada's investigation and litigation costs incurred totalling $5.5 million, and accepted Air Canada's request that WestJet make a donation in the amount of $10 million in the name of Air Canada and WestJet to children's charities across Canada. Air Canada withdrew its claims in light of this settlement. All legal proceedings between the parties were terminated. These amounts and other settlement costs totalling $100,000 have been paid as at December 31, 2006, and have been included in non-recurring expenses.

A Statement of Claim was also filed by Jetsgo Corporation in the Ontario Superior Court on October 15, 2004, against WestJet, an officer, and a former officer (the "Defendants"). The principal allegations were that the Defendants conspired together to unlawfully obtain Jetsgo's proprietary information and to use this proprietary information to harm Jetsgo and benefit the Company. The Plaintiff is seeking damages in an amount to be determined plus $50 million, but the Plaintiff has provided no details or evidence to substantiate its claim. On May 13, 2005, Jetsgo Corporation declared bankruptcy. As a result, this action has been stayed and no further steps can be taken in the litigation unless a court order is obtained.

We are party to other legal proceedings and claims that arise during the ordinary course of business. It is the opinion of management that the ultimate outcome of these and any outstanding matters will not have a material effect upon our financial position, results of operations or cash flows.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates are defined as those that require us to make assumptions about matters that are highly uncertain at the time the accounting estimates are made, and could potentially result in materially different results under different assumptions and conditions. For further discussion of these and other accounting policies we follow, see Note 1 to our consolidated financial statements.

We have identified the following areas that contain critical accounting estimates utilized in the preparation of our financial statements:

PROPERTY AND EQUIPMENT

We make estimates about the expected useful lives, projected residual values, lease-return conditions and the potential for impairment of our property and equipment. In estimating the lives and expected residual values of our fleet, we rely upon annual independent appraisals, recommendations from Boeing and actual experience with the same aircraft types. Revisions to the estimates for our fleet can be caused by changes in the utilization of the aircraft or changing market prices of used aircraft of the same type. We evaluate our estimates and potential impairment on all property and equipment annually and when events and circumstances indicate that the assets may be impaired.

NON-REFUNDABLE GUEST CREDITS

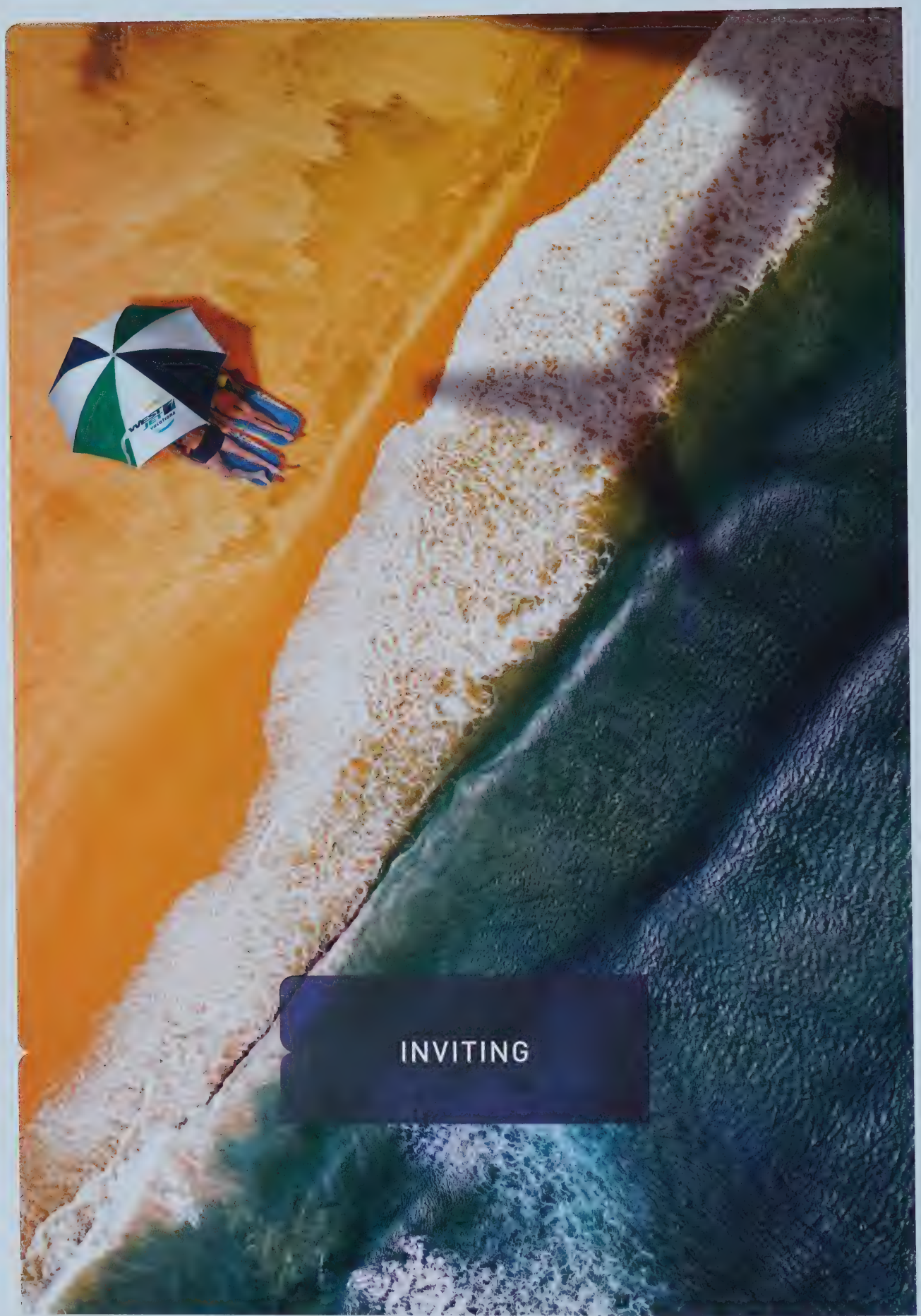
We also make estimates in accounting for our liability related to certain types of non-refundable guest credits. We may issue future travel credits related to guest compensation for flight delays, missing baggage and other inconveniences as a gesture of good faith. These types of credits are non-refundable and expire one year from the date of issue. We record a liability based on the estimated incremental cost of a one-way flight in the period the credit is issued. The utilization of guest credits is recorded as revenue when the guest has flown or upon expiry.

DEFERRED SALES AND MARKETING COSTS

We defer sales and marketing costs related to advanced ticket sales, we estimate the amount to defer based on the proportion of advanced ticket sales to total bookings on an annualized basis. This amount is included on our balance sheet in prepaid expenses.

RIAZ VERJEE
Customer Service Agent

Through our cautious financial management, we have maintained one of the most favourable balance sheets in the airline industry.



WE LAUNCHED WESTJET VACATIONS, bringing our high level of service to the packaged holiday market.

FUTURE INCOME TAXES

We use the liability method of accounting for future income taxes, which requires a significant amount of judgment regarding assumptions and the use of estimates. This can create significant variances between actual results and estimates, including the scheduling of our effective tax rate and the potential realization of future tax assets and liabilities.

STOCK-BASED COMPENSATION EXPENSE

We use the fair value method for valuing stock options. Under this method, as new options are granted, the fair value of these options will be expensed on a straight-line basis over the applicable vesting period, with an offsetting entry to contributed surplus. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of somewhat subjective assumptions including expected stock price volatility.

FINANCIAL DERIVATIVE INSTRUMENTS

The carrying amounts of financial instruments included in the balance sheet, other than long-term debt, approximate their fair value due to their short term to maturity.

At December 31, 2006, the fair value of long-term debt was approximately $1.5 billion (2005 – $1.2 billion). The fair value of long-term debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates which represent borrowing rates presently available to us for loans with similar terms and maturity.

We are exposed to foreign currency fluctuations as certain ongoing expenses are referenced to US-dollar denominated prices. We periodically use financial instruments, including foreign exchange forward contracts and options, to manage our exposure.

We have entered into a contract to purchase US $2.5 million per month at a forward rate of 1.11 for the payment period from October 2006 to March 2007 to hedge a portion of our committed US-dollar lease payments during the same period. The estimated fair market value of the contract as at December 31, 2006, is a gain of CAD $369,000.

The CICA released new standards related to financial instruments in April 2005 – Financial Instruments – Recognition and Measurement, Section 3855, Hedges, Section 3865, Comprehensive Income, Section 1530, Financial Instruments – Disclosure and Presentation, Section 3861 and Equity, Section 3251. These sections specify when a financial instrument or non-financial derivative is to be recognized on the balance sheet. These sections will require a financial instrument or non-financial derivative to be measured at fair value or using cost-based measures; establish how gains and losses are to be recognized and presented, including introducing comprehensive income; specify how hedge accounting should be applied; establish new disclosures about an entity's accounting for designated hedging relationships and the methods and assumptions applied in determining fair values.

We will adopt these new standards commencing January 1, 2007, and as at the date of the management's discussion and analysis cannot reasonably estimate the full effect on our financial statements.

Aircraft Utilization

Throughout 2006, we increased productivity through efficient fleet utilization. Aircraft utilization increased 5.3% to 11.9 operating block hours per day in 2006 compared to 11.3 operating block hours per day in 2005. Increasing the utilization of our aircraft increases our revenue-generating potential and allows us to gain cost efficiencies.

CONTROLS AND PROCEDURES

Management is responsible for the establishment and maintenance of a system of disclosure controls and procedures. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2006, as defined under the rules of the Canadian Securities Administrators, and have concluded that our disclosure controls and procedures are effective. Management is also responsible for the establishment and maintenance of a system of internal controls over financial reporting. Management has designed internal controls over financial reporting effectively to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with Canadian GAAP. There were no changes in our internal controls over financial reporting during the most recent interim period that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

RANDY DICKS | **JILL FERRIS**
Flight Attendant | Flight Attendant

Our financial achievements during 2006 are a direct result of the hard work and commitment of our exceptional WestJetters. The dedication, motivation and strong vision of our people have carried us through a decade of successful operations.

CORPORATE GOVERNANCE

During 2006, the Board of Directors continued to take steps to ensure that good corporate governance practices were employed by WestJet and the Board for the protection of all stakeholders. These changes were largely related to the ongoing review of "best practices," compliance with regulatory changes and the continued review and update of the existing governance materials.

The Board of Directors has established three standing committees: an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee. The charters of these committees are reviewed annually by the Board of Directors. In addition, the Board has an Independent Committee of Directors to deal with the claims from Air Canada and Jetsgo. This special committee was established to deal with litigation and to separate the handling of the claims from management to avoid any potential conflicts and to allow management to concentrate its time and efforts on running the airline. Each committee reports to the Board with their recommendations for final approval.

Part of the Corporate Governance and Nominating Committee's mandate is to assess the effectiveness of committees, the composition of existing committees and the appropriateness for any new committees.

In 2006, the Board of Directors updated our Disclosure, Confidentiality and Trading Policy, based on management's recommendations. In addition, management, in consultation with external advisors, began the preparation of a mandate and procedures for a Management Disclosure Committee, which were presented to and approved by the Board of Directors at its first 2006 meeting. This committee's mandate is to provide assurance that relevant information is made known to the CEO and Co-CFOs to allow for timely decisions about disclosures. The Disclosure Committee also performs procedures and reviews to provide assurance that disclosures made to our security holders or the investment community are reliable and made on a timely basis as required by applicable laws and regulations.

OUTLOOK

Our financial achievements during 2006 are a direct result of the hard work and commitment of our exceptional WestJetters. The dedication, motivation and strong vision of our people have carried us through a decade of successful operations. In 2007, we will continue to focus on increasing shareholder value through the achievement of sustainable, capital efficient and profitable long-term growth. The strength of our balance sheet, the success of our seasonal deployment strategy and our low-cost model will continue to be the basis for our future profitable growth. Heading into our second year of our seasonal deployment strategy, first quarter gains will largely be realized through capacity increases. With planned capacity growth of 19% in the first quarter of 2007, RASM to date for this period is tracking with slight improvements over that of 2006.

March 9, 2007

RUSS McIVOR
TAC Trainer

In 2007, we will continue to focus on increasing shareholder value through the achievement of sustainable, capital-efficient and profitable long-term growth. The strength of our balance sheet, the success of our seasonal deployment strategy and our low-cost model will continue to be the basis for our future profitable growth.

WE MADE A SEAMLESS TRANSITION to a new company president and a new 5-year strategic plan designed to take us to the next level.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

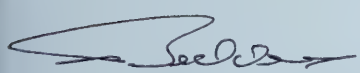
The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When a choice between accounting methods exists, management has chosen those it deems conservative and appropriate in the circumstances. Financial statements will necessarily include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis to ensure that the consolidated financial statements are presented fairly in all material respects. Financial information contained in the annual report is consistent, where appropriate, with the information and data contained in the consolidated financial statements. All information in the annual report is the responsibility of management.

Management has established systems of internal control, including disclosure controls and procedures which are designed to provide reasonable assurance that financial and non-financial information that is disclosed is timely, complete, relevant and accurate. These systems of internal control also serve to safeguard the Corporation's assets. The systems of internal control are monitored by management, and further supported by an internal audit department whose functions include reviewing internal controls and their application.

The Board of Directors is responsible for the overall stewardship and governance of the Corporation, including ensuring management fulfills its responsibility for financial reporting and internal control, and reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors, comprised of non-management Directors, meets regularly with management, the internal auditors and the external auditors, to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements and MD&A. The Audit Committee reports its findings to the Board of Directors prior to the approval of such statements for issuance to the shareholders. The Audit Committee also recommends, for review by the Board of Directors and approval of shareholders, the reappointment of the external auditors. The internal and external auditors have full and free access to the Audit Committee.

The consolidated financial statements have been audited by KPMG LLP, the independent external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The auditors' report outlines the scope of their examination and sets forth their opinion.



CLIVE J. BEDDOE
Executive Chairman
and Chief Executive Officer

JANICE PAGET
Vice-President, Controller
and Co-Chief Financial Officer

DEREK PAYNE
Vice-President,
Finance and Corporate Services
and Co-Chief Financial Officer

Calgary, Alberta
February 12, 2007

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of WestJet Airlines Ltd. as at December 31, 2006 and 2005 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 12, 2007

CONSOLIDATED BALANCE SHEETS

WestJet Airlines Ltd.

December 31, 2006 and 2005
(Stated in Thousands of Dollars)

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents (note 9)	$ 377,517	$ 259,640
Accounts receivable	12,645	8,022
Income taxes recoverable	13,820	13,909
Assets held for sale (note 2)	13,157	—
Prepaid expenses and deposits (note 1(g))	30,727	31,746
Inventory	8,200	6,259
	456,066	319,576
Property and equipment (note 2)	2,158,746	1,803,497
Other assets (note 3)	111,715	90,019
	$ 2,726,527	$ 2,213,092
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 121,157	$ 100,052
Advance ticket sales	148,743	127,450
Non-refundable guest credits	40,508	32,814
Current portion of long-term debt (note 4)	153,720	114,115
Current portion of obligations under capital lease (note 6)	356	2,466
	464,484	376,897
Long-term debt (note 4)	1,291,136	1,044,719
Obligations under capital lease (note 6)	1,483	1,690
Other liabilities (note 5)	14,114	16,982
Future income tax (note 8)	149,283	102,651
	1,920,500	1,542,939
Shareholders' equity:		
Share capital (note 7(b))	431,248	429,613
Contributed surplus (note 7(g))	58,656	39,093
Retained earnings	316,123	201,447
	806,027	670,153
Commitments and contingencies (notes 6 and 10)		
	$ 2,726,527	$ 2,213,092

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Clive Beddoe, Director

Wilmot Matthews, Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

WestJet Airlines Ltd.

Years ended December 31, 2006 and 2005
(Stated in Thousands of Dollars, Except Per Share Amounts)

	2006	2005
Revenues:		
Guest revenues	$ 1,558,471	$ 1,207,075
Charter and other	201,400	179,379
Interest income	13,815	6,308
	1,773,686	1,392,762
Expenses:		
Aircraft fuel	425,506	354,065
Airport operations	262,310	219,144
Flight operations and navigational charges	229,821	183,463
Sales and marketing	154,734	124,154
Depreciation and amortization	111,442	106,624
General and administration	79,817	71,610
Aircraft leasing (note 11(b))	71,432	65,647
Interest expense	70,196	55,496
Maintenance	69,975	71,397
Inflight	67,220	53,005
Guest services	31,739	27,322
	1,574,192	1,331,927
Earnings from operations	199,494	60,835
Non-operating income (expense):		
Gain (loss) on foreign exchange	32	(2,729)
Gain (loss) on disposal of property and equipment	839	(98)
Non-recurring expenses (note 10(c))	(15,600)	—
	(14,729)	(2,827)
Employee profit share (note 10(b))	(20,284)	(6,033)
Earnings before income taxes	164,481	51,975
Income tax (expense) recovery (note 8):		
Current	(3,170)	7,367
Future	(46,635)	(35,341)
	(49,805)	(27,974)
Net earnings	114,676	24,001
Retained earnings, beginning of year	201,447	177,446
Retained earnings, end of year	$ 316,123	$ 201,447
Earnings per share (note 7(d)):		
Basic	$ 0.88	$ 0.19
Diluted	$ 0.88	$ 0.19

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

WestJet Airlines Ltd.

Years ended December 31, 2006 and 2005
(Stated in Thousands of Dollars)

	2006	2005
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 114,676	$ 24,001
Items not involving cash:		
Depreciation and amortization	111,442	106,624
Amortization of other liabilities	(868)	(604)
Amortization of hedge settlements	1,427	1,391
(Gain) loss on disposal of property and equipment	(839)	98
Loss on disposal of aircraft parts (note 2)	(1,233)	(1,126)
Stock-based compensation expense	21,205	17,604
Issued from treasury stock	—	17,705
Future income tax expense	46,635	35,341
Decrease in non-cash working capital (note 9(a))	43,707	46,290
	336,152	247,324
Financing activities:		
Increase in long-term debt	418,581	256,385
Repayment of long-term debt	(132,559)	(100,487)
Increase in other liabilities	—	8,479
Issuance of shares	—	21,094
Share issuance costs	(10)	(215)
Increase in other assets	(28,139)	(14,350)
Decrease in obligations under capital lease	(480)	(5,846)
Increase in non-cash working capital	(1,071)	(837)
	256,322	164,223
Investing activities:		
Aircraft additions	(438,906)	(660,947)
Aircraft disposals	3,822	404,583
Other property and equipment additions	(41,124)	(44,969)
Other property and equipment disposals	1,611	894
	(474,597)	(300,439)
Increase in cash	117,877	111,108
Cash, beginning of year	259,640	148,532
Cash, end of year	$ 377,517	$ 259,640

Cash is defined as cash and cash equivalents. See note 9(b) for additional cash information.
See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WestJet Airlines Ltd.

Years ended December 31, 2006 and 2005
(Tabular Amounts are Stated in Thousands of Dollars, Except Share and Per Share Data)

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of WestJet Airlines Ltd. (the "Corporation") and its wholly owned subsidiaries, as well as the accounts of four special-purpose entities, which are utilized to facilitate the financing of aircraft. The Corporation has no equity ownership in the special-purpose entities; however, the Corporation is the primary beneficiary of the special-purpose entities' operations. All intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions, regarding significant items such as amounts relating to depreciation and amortization, non-refundable guest credits, lease return conditions, future income taxes, stock-based compensation expense, deferred sales and marketing costs, impairment assessments of property and equipment, and the valuation of derivative financial instruments that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

(b) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and all investments that are highly liquid in nature and have a maturity date of three months or less.

(c) Revenue recognition:

Guest and charter revenue is recognized when air transportation is provided. Tickets sold but not yet used are reported in the consolidated balance sheet as advance ticket sales.

The Corporation earns revenue from package holiday sales. Revenue from the air content is recognized when air transportation is provided. Revenue from the land content is deferred and recognized on completion of the holiday. Revenue from the land content is generated from providing agency services equal to the amount paid by the guest for products and services less payment to the travel supplier and are reported at the net amounts received, without any associated cost of revenue.

Cargo revenue is recognized when air transportation services are performed under the cargo agreement.

The Corporation earns revenue under the tri-branded credit card agreement which is included in other revenue. Net retail sales revenue is recognized at the time the transaction occurs. Revenue related to account activations is deferred and recognized when the Corporation fulfills its obligations related to the new activations.

(d) Non-refundable guest credits:

Where appropriate, the Corporation issues future travel credits related to guests for flight delays, missing baggage and other inconveniences as a gesture of good faith. These credits are non-refundable and expire one year from the date of issue. The Corporation records a liability based on the estimated incremental cost of a one-way flight in the period the credit is issued. The utilization of guest credits is recorded as revenue when the guest has flown or upon expiry.

(e) Foreign currency:

Monetary assets and liabilities, denominated in foreign currencies, are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Non-monetary assets and revenue and expense items are translated at rates prevailing when they were acquired or incurred. Foreign exchange gains and losses are included in earnings.

1. **Significant accounting policies (continued):**

(f) Inventory:

Fuel and supplies are valued at the lower cost, determined on a first-in-first-out basis, and replacement value. Aircraft expendables and consumables are expensed as acquired.

(g) Deferred costs:

Sales and marketing expenses attributed to advance ticket sales are deferred and expensed in the period the related revenue is recognized. Included in prepaid expenses and deposits are $10,878,000 (2005 – $13,236,000) of deferred costs.

(h) Property and equipment:

Property and equipment are recorded at cost and depreciated to their estimated residual values. Aircraft under capital lease are initially recorded at the present value of minimum lease payments at the inception of the lease.

Asset	Basis	Rate
Aircraft net of estimated residual value – Next-Generation	Cycles	Cycles flown
Live satellite television included in aircraft – Next-Generation	Straight-line	10 years/lease term
Aircraft net of estimated residual value – 200-series	Flight hours	Hours flown
Ground property and equipment	Straight-line	5 to 25 years
Spare engines and parts net of estimated residual value – Next-Generation	Straight-line	20 years
Spare engines and parts net of estimated residual value – 200-series	Flight hours	Fleet hours flown
Aircraft under capital lease	Straight-line	Term of lease
Other assets under capital lease	Straight-line	Term of lease
Buildings	Straight-line	40 years
Leasehold improvements	Straight-line	Term of lease

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(i) Maintenance costs:

Maintenance and repairs, including major overhauls, are charged to maintenance expense as they are incurred. Maintenance reserves related to certain aircraft leases are paid on a monthly basis over the term of the lease.

Aircraft parts that are deemed to be beyond economic repair are disposed of and the remaining net book values of these parts are included in maintenance expense.

Recovery of costs associated with parts and labour covered under warranty are recognized as an offset to maintenance expense.

(j) Capitalized costs:

Costs associated with assets under development which have probable future economic benefit, which can be clearly defined and measured and are costs incurred for the development of new products or technologies are capitalized. These costs are not amortized until the assets are substantially complete and ready for its

1. Significant accounting policies (continued):

(j) Capitalized costs (continued):

intended use, at which time, they are amortized over five to 10 years. Interest attributable to funds used to finance property and equipment is capitalized to the related asset. Legal and financing costs for the loan facilities are capitalized to other assets on the balance sheet and amortized on a straight-line basis over the term of the related loan.

Costs of new route development are expensed as incurred.

(k) Future income tax:

The Corporation uses the liability method of accounting for future income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse.

(l) Stock-based compensation plans:

The Corporation uses the fair value method for valuing stock options. Under this method, as new options are granted, the fair value of these options will be expensed on a straight-line basis over the applicable vesting period, with an offsetting entry to contributed surplus. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. Upon the exercise of stock options, consideration received together with amounts previously recorded in contributed surplus is recorded as an increase in share capital.

(m) Financial instruments:

Derivative financial instruments are utilized by the Corporation from time to time in the management of its foreign currency, interest rate and fuel price exposures. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. In the event that a derivative financial instrument is not designated for hedge accounting, does not qualify for hedge accounting or the event that the hedge is ineffective, changes in the fair value of derivative financial instruments are recorded in non-operating income or expense.

Gains or losses relating to derivatives that are designated as hedges are deferred in other assets and/or other liabilities and recognized in the same period and in the same financial category as the corresponding hedged transactions.

(n) Per share amounts:

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that the total proceeds obtained on the exercise of options and the unamortized portion of stock based compensation would be used to purchase shares at the average price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(o) Comparative figures:

Certain prior-period balances have been reclassified to conform to current period's presentation.

2. **Property and equipment:**

2006	Cost	Accumulated depreciation	Net book value
Aircraft – Next-Generation	$ 2,086,301	$ 185,526	$ 1,900,775
Ground property and equipment	153,896	65,854	88,042
Spare engines and parts – Next-Generation	70,459	10,145	60,314
Buildings	40,028	4,825	35,203
Leasehold improvements	6,914	4,579	2,335
Other assets under capital lease	2,481	694	1,787
	2,360,079	271,623	2,088,456
Deposits on aircraft	38,011	—	38,011
Assets under development	32,279	—	32,279
	$ 2,430,369	$ 271,623	$ 2,158,746

2005	Cost	Accumulated depreciation	Net book value
Aircraft – Next-Generation	$ 1,619,850	$ 102,914	$ 1,516,936
Ground property and equipment	135,217	52,664	82,553
Spare engines and parts – Next-Generation	67,960	8,029	59,931
Buildings	39,636	3,825	35,811
Leasehold improvements	6,302	3,992	2,310
Other assets under capital lease	2,289	198	2,091
Spare engines and parts – 200-series	12,547	11,128	1,419
Aircraft – 200-series	3,892	2,861	1,031
Aircraft under capital lease	19,475	19,475	—
	1,907,168	205,086	1,702,082
Deposits on aircraft	73,493	—	73,493
Assets under development	27,922	—	27,922
	$ 2,008,583	$ 205,086	$ 1,803,497

During the year, property and equipment was acquired at an aggregate cost of $192,000 (2005 – $2,137,000) by means of capital leases.

During the year the Corporation capitalized $6,849,000 (2005 – $3,250,000) of interest related to aircraft financing.

Subsequent to year-end the Corporation announced the suspension of the aiRES project while an amendment to the contract is negotiated. If the negotiation is unsuccessful, the parties will each be in a position to proceed with claims against each other. While the Corporation is committed to completing the aiRES project, uncertainty does remain, the outcome of which may impact the future recoverability of the project and may have a significant impact on the financial statements of future periods. As at December 31, 2006, $31,869,000 (2005 – $16,781,000) is included in assets under development for costs related to the aiRES project.

Included in aircraft costs are estimated lease return costs for Next-Generation aircraft totalling $1,107,000 (2005 – $1,107,000) and associated accumulated amortization of $329,000 (2005 – $233,000) for these aircraft under operating leases. These amounts are being amortized on a straight-line basis over the term of each lease.

During the year, the Corporation recognized $609,000 (2005 – $NIL) of costs previously capitalized for winglet certification on the 737-600 series aircraft in maintenance expense as a result of the abandonment of the winglet program on these aircraft. In addition, the Corporation expensed $1,233,000 (2005 – $1,126,000) of aircraft parts deemed to be beyond economic repair which were also included in maintenance expense.

2. Property and equipment (continued):

The Corporation has entered into agreements to sell certain spare engines and aircraft parts to an unrelated third party. At December 31, 2006, these engines and parts have been taken out of revenue generating service and are included at their net book value in current assets, as assets held for sale. These transactions were completed in early 2007.

3. Other assets:

	2006	2005
Financing fees	$ 65,892	$ 50,010
Security deposits and other leaseholds	43,263	31,204
Hedge settlements	19,479	19,479
Other amounts	2,097	1,899
Accumulated amortization	(19,016)	(12,573)
	$ 111,715	$ 90,019

Financing fees are related to the facilities for the purchase of the Boeing Next-Generation aircraft and hedge settlements relate to certain leased Boeing Next-Generation aircraft. Amortization of financing fees totalling $5,016,000 (2005 – $3,673,000) has been included in depreciation and amortization and amortization of hedge settlements totalling $1,427,000 (2005 – $1,391,000) has been included in aircraft leasing for the year ended December 31, 2006.

4. **Long-term debt:**

	2006	2005
$1,709,467,000 in 45 individual term loans, amortized on a straight-line basis over a 12-year term, repayable in quarterly principal instalments ranging from $674,000 to $955,000, including fixed interest at a weighted average rate of 5.31%, maturing between 2014 and 2018. These facilities are guaranteed by the Ex-Im Bank and secured by 32 700-series aircraft and 13 600-series aircraft.	$ 1,393,439	$ 1,114,506
$35,000,000 in three individual term loans, repayable in monthly instalments ranging from $104,000 and $166,000 including floating interest at the bank's prime rate plus 0.88% with an effective interest rate of 6.88% at December 31, 2006, maturing between 2008 and 2011, secured by three Next-Generation flight simulators.	26,223	19,615
$12,000,000 term loan, repayable in monthly instalments of $108,000 including interest at 9.03%, maturing April 2011, secured by the Calgary hangar facility.	10,426	10,767
$16,968,000 in 24 individual term loans, amortized on a straight-line basis over a five-year term, repayable in quarterly principal instalments ranging from $29,000 to $47,000 including floating interest at the Canadian LIBOR rate plus 0.08%, with a weighted average effective interest rate of 4.35% at December 31, 2006, maturing between 2009 and 2011, guaranteed by the Ex-Im Bank and secured by certain 700-series and 600-series aircraft.	11,699	10,462
$4,550,000 term loan, repayable in monthly instalments of $50,000, including floating interest at the bank's prime rate plus 0.50%, with an effective interest rate of 6.50% as at December 31, 2006, maturing April 2013, secured by the Calgary hangar facility.	3,069	3,484
	1,444,856	1,158,834
Less current portion	153,720	114,115
	$ 1,291,136	$ 1,044,719

The net book value of the property and equipment pledged as collateral for the Corporation's secured borrowings was $1,964,139,000 as at December 31, 2006 (2005 – $1,549,107,000).

Held within the special-purpose entities, as described in note 1, are liabilities of $1,743,984,000 (2005 – $1,392,629,000) and corresponding assets of $1,744,291,000 (2005 – $1,393,801,000), which are included in the consolidated financial statements.

Future scheduled repayments of long-term debt are as follows:

2007	$ 153,720
2008	161,425
2009	145,593
2010	144,877
2011	157,466
2012 and thereafter	681,775
	$ 1,444,856

4. Long-term debt (continued):

During 2006, the Corporation acquired 12 aircraft supported by loan guarantees from the Export-Import Bank of the United States (Ex-Im Bank). In 2005, the Corporation completed financing arrangements for US $386.1 million for the purchase of seven aircraft delivered in 2005 and six aircraft delivered between February and June 2006. In 2006, the Corporation completed financing arrangements for US $191.1 million to support the acquisition of six aircraft delivered between July and December 2006. As at December 31, 2006, the Corporation has accepted the 12 2006 aircraft deliveries under these facilities and drew a total of CAD $409.6 million (US $360.6 million).

These facilities were drawn in Canadian dollars, in separate instalments, with five- and 12-year terms for live satellite television equipment and new aircraft, respectively. Each loan is amortized on a straight-line basis over the respective terms in quarterly principal instalments, and interest is calculated on the outstanding balance.

As at December 31, 2006, the Corporation has an unutilized and uncancelled balance of a final commitment from Ex-Im Bank totalling US $1 million for the purchase of live satellite television systems. The Corporation also has a total preliminary commitment from Ex-Im Bank for US $240.2 million for seven aircraft to be delivered in 2007 and 2008.

The Corporation will be charged a commitment fee of 0.125% per annum on the unutilized and uncancelled balance of the Ex-Im Bank facility, payable at specified dates and upon delivery of an aircraft, and is charged a 3% exposure fee on the financed portion of the aircraft price, payable upon delivery of an aircraft.

The Corporation has available two facilities with a Canadian chartered bank totalling $15,000,000 (2005 – $8,000,000) for letters of guarantee. At December 31, 2006, letters of guarantee totalling $9,858,000 (2005 – $6,830,000) have been issued under this facility. These facilities are secured by a general security agreement, an assignment of insurance proceeds and $1,858,000 of cash.

5. Other liabilities:

Included in other liabilities is $6,000,000 (2005 – $8,000,000) of unearned revenue related to the BMO Mosaik®, AIR MILES®, Mastercard® credit card for future net retail sales and for bounty on newly activated credit cards. During the year ended December 31, 2006, the Corporation recognized $2,000,000 (2005 – $2,000,000) of this unearned revenue. The remaining unearned revenue balance will be recognized during the next two years with $3,000,000 earned in 2007 and $3,000,000 in 2008.

At December 31, 2006, included in other liabilities are deferred gains from the sale and leaseback of aircraft totalling $7,007,000 (2005 – $7,875,000), net of amortization, which are being deferred and amortized over the lease term with the amortization included in aircraft leasing. During the year ended December 31, 2006, the Corporation recognized amortization of $868,000 (2005 – $604,000).

In 2006, the Corporation has also included in other liabilities $1,107,000 (2005 – $1,107,000) pertaining to the estimated lease return costs on its Next-Generation leased aircraft.

6. **Leases:**

The Corporation has entered into operating leases and agreements for aircraft, buildings, computer hardware and software licenses and satellite programming, as well as capital leases relating to ground handling equipment. The obligations are as follows (see note 10 for additional commitments):

	Capital leases	Operating leases
2007	$ 444	$ 102,375
2008	444	118,338
2009	444	137,906
2010	698	141,627
2011	38	139,453
2012 and thereafter	—	598,092
Total lease payments	2,068	$ 1,237,791
Less weighted average imputed interest at 5.29%	(229)	
Net minimum lease payments	1,839	
Less current portion of obligations under capital lease	(356)	
Obligations under capital lease	$ 1,483	

The Corporation has certain operating leases primarily related to aircraft that are denominated in US dollars. The US-dollar amounts of these operating leases, which have been included at their Canadian-dollar equivalent above, are as follows:

2007	$ 76,430
2008	92,673
2009	114,343
2010	119,154
2011	119,067
2012 and thereafter	500,035
	$ 1,021,702

The Corporation has committed to lease an additional 11 737-700 aircraft and two 737-800 aircraft to be delivered between 2007 and 2009, for terms ranging between eight and 10 years, in US dollars. These amounts have been included at their Canadian- and US-dollar equivalents in the above tables.

WestJet Airlines Ltd.

Years ended December 31, 2006 and 2005
(Tabular Amounts are Stated in Thousands of Dollars, Except Share and Per Share Data)

7. Share capital:

(a) Authorized:

Unlimited number of common voting shares:

The common voting shares may be owned and controlled by Canadians only and shall confer the right to one vote per common voting share at all meetings of shareholders of the Corporation.

Each issued and outstanding common voting share shall be converted into one variable voting share automatically and without any further act of the Corporation or the holder, if such common voting share becomes owned or controlled by a person who is not a Canadian.

Unlimited number of variable voting shares:

The variable voting shares may be owned and controlled only by persons who are not Canadians and are entitled to one vote per variable voting share unless (i) the number of issued and outstanding variable voting shares exceed 25% of the total number of all issued and outstanding variable voting shares and common voting shares (or any greater percentage the Governor in Council may specify pursuant to the Canada Transportation Act), or (ii) the total number of votes cast by or on behalf of the holders of variable voting shares at any meeting on any matter on which a vote is to be taken exceeds 25% (or any greater percentage the Governor in Council may specify pursuant to the Canada Transportation Act) of the total number of votes that may be cast at such meeting.

If either of the above-noted thresholds are surpassed at any time, the vote attached to each variable voting share will decrease automatically without further act of formality. Under the circumstances described above, the variable voting shares as a class cannot carry more than 25% (or any greater percentage the Governor in Council may specify pursuant to the Canada Transportation Act) of the total voting rights attached to the aggregate number of issued and outstanding variable voting shares and common voting shares of the Corporation.

Under the circumstances described above, the variable voting shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any greater percentage the Governor in Council may specify pursuant to the Canada Transportation Act) of the total number of votes that may be cast at the meeting.

Each issued and outstanding variable voting share shall be automatically converted into one common voting share without any further intervention on the part of the Corporation or of the holder if (i) the variable voting share is or becomes owned and controlled by a Canadian; or if (ii) the provisions contained in the Canada Transportation Act relating to foreign ownership restrictions are repealed and not replaced with other similar provisions in applicable legislation.

Unlimited number of non-voting shares and

Unlimited number of non-voting first, second and third preferred shares:

The non-voting shares and the non-voting preferred shares are subject to limitations to be fixed by the Board of Directors.

(b) Issued and outstanding:

On August 30, 2005, the Corporation's common shares were restructured into two classes of shares: common voting shares and variable voting shares (collectively, the "voting shares" or "shares"). Each issued and outstanding common share which was not owned and controlled by a Canadian within the meaning of the Canada Transportation Act was converted into one variable voting share and the common share was cancelled. Each issued and outstanding common share which was owned and controlled by a Canadian within the meaning of the Canada Transportation Act was converted into one common voting share and the common share was cancelled.

7. **Share capital (continued):**

(b) Issued and outstanding (continued):

	2006		2005	
	Number	Amount	Number	Amount
Common and variable voting shares:				
Balance, beginning of year	129,575,099	$ 429,613	125,497,407	$ 390,469
Exercise of options	73,589	—	1,333,791	3,389
Stock-based compensation expense on stock options exercised	—	1,642	—	488
Issued from treasury (see note 7(e))	—	—	2,743,901	35,410
Share issuance costs	—	(10)	—	(215)
Tax benefit of issue costs	—	3	—	72
Balance, end of year	129,648,688	$ 431,248	129,575,099	$ 429,613

As at December 31, 2006, the number of common voting shares and variable voting shares amounted to 124,495,951 (2005 – 119,378,637) and 5,152,737 (2005 – 10,196,462) respectively.

(c) Stock Option Plans:

The Corporation has Stock Option Plans, whereby up to a maximum of 12,957,831 common and variable voting shares may be issued to officers and employees of the Corporation subject to the following limitations:

(i) the number of voting shares reserved for issuance to any one optionee will not exceed 5% of the issued and outstanding common and variable voting shares at any time;

(ii) the number of voting shares reserved for issuance to insiders shall not exceed 10% of the issued and outstanding common and variable voting shares; and

(iii) the number of voting shares issuable under the Stock Option Plans, which may be issued within a one-year period, shall not exceed 10% of the issued and outstanding common and variable voting shares at any time.

Stock options are granted at a price that equals the market value, have a term of four years and vest on either the first, second or third anniversary from the date of grant.

Changes in the number of options, with their weighted average exercise prices, are summarized below:

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	11,428,718	$ 13.94	10,682,082	$ 12.37
Granted	5,980,660	11.82	4,474,184	14.46
Exercised	(433,129)	11.21	(3,506,625)	9.82
Cancelled	(332,711)	13.19	(147,309)	14.53
Repurchased	—	—	(66,724)	11.99
Expired	(1,597,337)	13.78	(6,890)	13.79
Stock options outstanding, end of year	15,046,201	$ 13.21	11,428,718	$ 13.94
Exercisable, end of year	4,846,236	$ 13.63	3,920,623	$ 12.24

7. Share capital (continued):

(c) Stock Option Plans (continued):

The following table summarizes the options outstanding and exercisable at December 31, 2006:

Outstanding options				Exercisable options	
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise Price	Number exercisable	Weighted average exercise Price
$9.74 – $11.28	2,283,929	0.44	$ 11.19	2,222,540	$ 11.21
$11.81 – $13.80	5,944,711	3.31	11.84	69,045	12.12
$14.13 – $18.41	6,817,561	1.94	15.08	2,554,651	15.78
	15,046,201	**2.25**	**$ 13.21**	**4,846,236**	**$ 13.63**

Under the terms of the Corporation's Stock Option Plans, a cashless settlement alternative is available whereby option holders can either (a) elect to receive shares by delivering cash to the Corporation or (b) elect to receive a number of shares equivalent to the difference between the market value of the options and the aggregate exercise price. For the year ended December 31, 2006, option holders exercised 433,129 (2005 – 3,151,923) options on a cashless settlement basis and received 73,589 (2005 – 979,089) shares.

In 2005, certain executives holding total options of 66,724, at an exercise price of $11.99, offered the Corporation an opportunity to purchase and cancel their options in consideration of payment by the Corporation in cash for a fixed price of $320,000. The agreements were accepted by the Corporation and the options were cancelled.

(d) Per share amounts:

The following table summarizes the shares used in calculating net earnings per share:

	2006	2005
Weighted average number of shares outstanding - basic	129,585,403	128,031,694
Effect of dilutive employee stock options	124,321	392,408
Weighted average number of shares outstanding – diluted	129,709,724	128,424,102

For the year ended December 31, 2006, a total of 12,823,662 (2005 – 8,672,329) options were not included in the calculation of dilutive potential shares as the result would be anti-dilutive.

(e) Employee Share Purchase Plan:

The Corporation has an Employee Share Purchase Plan (ESPP) whereby the Corporation matches every dollar contributed by each employee. Under the terms of the ESPP, employees may contribute up to a maximum of 20% of their gross pay and acquire voting shares of the Corporation at the current fair market value of such shares.

The Corporation has the option to acquire voting shares on behalf of employees through open market purchases or to issue new shares from treasury at the current market price. For the period January to October 2005, shares under the ESPP were issued from treasury at the current market price. Subsequent to this period and continuing throughout 2006, the Corporation elected to purchase these shares through the open market and will continue to review this option in the future. For the year ended December 31, 2006, $NIL (2005 – $35,410,000) of voting shares were issued from treasury, of which $NIL (2005 - $17,705,000) represented the Corporation's matching contribution for employee contributions, for which no cash was exchanged.

7. **Share capital (continued):**

(e) Employee Share Purchase Plan: (continued):

Current market price for voting shares issued from treasury is determined based on weighted average trading price of the voting shares on the Toronto Stock Exchange for the five trading days preceding the issuance.

Shares acquired for the ESPP are held in trust for one year. Employees may offer to sell voting shares, which have not been held for at least one year, on January 1 and July 1 of each year, to the Corporation for 50% of the then current market price.

The Corporation's share of the contributions is recorded as compensation expense and amounted to $28,209,000 (2005 – $21,690,000).

(f) Stock-based compensation:

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used to determine the fair market value of options granted during the years ended December 31:

	2006	2005
Weighted average fair market value per option	$ 4.29	$ 5.26
Average risk-free interest rate	4.2%	3.4%
Average volatility	42%	43%
Expected life (years)	3.6	3.7
Dividend per share	$ 0.00	$ 0.00

The Corporation has not incorporated an estimated forfeiture rate for stock options that will not vest. Rather, the Corporation accounts for actual forfeitures as they occur.

Employee stock option compensation expense is included in flight operations and general and administration expenses and totalled $21,205,000 (2005 – $17,604,000, net of repurchase of $320,000 as noted in 7(c)).

(g) Contributed surplus:

Changes to contributed surplus were as follows:

	2006	2005
Balance, beginning of year	$ 39,093	$ 21,977
Stock-based compensation expense	21,205	17,604
Stock options exercised	(1,642)	(488)
Balance, end of year	$ 58,656	$ 39,093

WestJet Airlines Ltd.

Years ended December 31, 2006 and 2005
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8. **Income taxes:**

The provision for income taxes differs from that which would be expected by applying the combined federal and provincial statutory rates.

A reconciliation of the difference is as follows:

	2006	2005
Earnings before income taxes	$ 164,481	$ 51,975
Income tax rate	34.21%	35.04%
Expected income tax provision	56,269	18,212
Add (deduct):		
Non-deductible expenses	1,440	1,219
Non-deductible stock-based compensation	7,249	6,208
Non-taxable portion of capital gains	(128)	(1,470)
Effect of tax rate changes	(16,901)	(1,426)
Large corporations tax and capital taxes	3,192	6,059
Other	(1,316)	(828)
	$ 49,805	$ 27,974

The Corporation has included in its reconciliation an amount of $16,901,000 (2005 – $1,426,000) that reflects the effect of tax rate changes. This balance includes a reduction to the Corporation's future tax liability totalling $11,333,000 (2005 – $NIL) as a result of the federal government and various provinces, in which the Corporation operates, enacting legislation during the second quarter of 2006 that reduced the federal and provincial statutory income tax rates. This amount also includes for 2006 $5,568,000 (2005 – $1,426,000) of tax rate changes required to reconcile the Corporations' combined current federal and provincial statutory rates to the Corporation's anticipated future federal and provincial tax rates.

The components of the net future tax liability are as follows:

	2006	2005
Future income tax asset:		
Share issue costs	$ 581	$ 1,368
Non-capital losses	89,017	44,448
Deferred partnership loss	12,466	52,831
Future income tax liability:		
Property and equipment	(251,347)	(201,298)
	$ (149,283)	$ (102,651)

The Corporation has recognized a benefit on $291.7 million of non-capital losses which are available for carry forward to reduce taxable income in future years. These losses will begin to expire in the year 2014.

The non-capital losses recognized result from tax deductions taken in excess of taxable earnings. The Corporation has the ability to adjust tax deductions to avoid losses from expiry.

9. **Cash flow information:**

(a) Change in non-cash working capital from operations:

	2006	2005
Increase (decrease) in accounts receivable	$ (4,623)	$ 4,792
Decrease (increase) income taxes recoverable	89	(11,055)
Decrease (increase) in prepaid expenses and deposits	1,019	(6,253)
Increase in inventory	(1,941)	(877)
Increase in accounts payable and accrued liabilities	21,105	8,167
Increase in advance ticket sales	21,293	45,459
Increase in non-refundable guest credits	7,694	6,110
Other non-cash items	(929)	(53)
	$ 43,707	$ 46,290

(b) Supplemental cash flow information:

As at December 31, 2006, cash and cash equivalents includes short-term investments of $316,951,000 (2005 – $219,030,000).

As at December 31, 2006, the Corporation had US-dollar cash and cash equivalents totalling US $32,019,000 (2005 – US $35,453,000).

As at December 31, 2006, cash and cash equivalents include US $5,279,000 (2005 – $6,470,000) and CAD $1,858,000 (2005 – $NIL) of restricted cash. US $186,000 (2005 – US $153,000) is cash not yet remitted for passenger facility charges.

Cash interest paid during the year was $67,077,000 (2005 – $54,688,000).

Cash taxes paid during the year were $3,081,000 (2005 – $10,151,000).

10. **Commitments and contingencies:**

(a) Aircraft:

The Corporation has remaining commitments to purchase six 737-700s and one 737-800 to be delivered over the course of 2007 and 2008.

The Corporation has an agreement with Live TV to install, maintain and operate live satellite television on all aircraft with the ability to cancel installing the system on future aircraft deliveries, subject to certain applicable penalties. This agreement contains an exclusivity clause which expires on July 1, 2009.

The Corporation has signed an agreement with Bell ExpressVu for a seven-year term to provide satellite programming. The agreement commenced in 2004 and can be renewed for an additional five years.

The remaining estimated amounts to be paid in deposits and purchase prices in US dollars relating to the purchases of the remaining aircraft, live satellite television systems and winglets are as follows:

2007	$ 153,255
2008	101,330
2009	5,343
	$ 259,928

10. Commitments and contingencies (continued):

(b) Employee profit share:

The Corporation has an employee profit sharing plan whereby eligible employees participate in the pre-tax operating income of the Corporation. The profit share ranges from a minimum of 10% to a maximum of 20% of earnings before employee profit share and income taxes. The amounts paid under the plan are subject to prior approval by the Board of Directors.

(c) Contingencies:

On April 4, 2004, Air Canada commenced a lawsuit against the Corporation. Air Canada claimed damages in the amount of $220 million in an amendment to its Statement of Claim. On May 29, 2006, as a full settlement, the Corporation agreed to pay Air Canada's investigation and litigation costs incurred of $5.5 million and accepted Air Canada's request that the Corporation make a donation in the amount of $10 million in the name of Air Canada and the Corporation to children's charities across the country. Air Canada accepted the Corporation's apology and withdrew its claims in light of this settlement. All legal proceedings between the parties have been terminated. These amounts and other settlement costs totalling $15,600,000 have been paid as at December 31, 2006, and have been included in non-recurring expenses.

A Statement of Claim was also filed by Jetsgo Corporation in the Ontario Superior Court on October 15, 2004, against the Corporation, an officer, and a former officer (the "Defendants"). The principal allegations are that the Defendants conspired together to unlawfully obtain Jetsgo's proprietary information and to use this proprietary information to harm Jetsgo and benefit the Corporation. The Plaintiff is seeking damages in an amount to be determined plus $50 million, but the Plaintiff has provided no details or evidence to substantiate its claim. On May 13, 2005, Jetsgo Corporation declared bankruptcy. As a result, this action has been stayed and no further steps can be taken in the litigation unless a court order is obtained.

The Corporation is party to other legal proceedings and claims that arise during the ordinary course of business. It is the opinion of management that the ultimate outcome of these and any outstanding matters will not have a material effect upon the Corporation's financial position, results of operations or cash flows.

11. Financial instruments and risk management:

(a) Fuel risk management:

The Corporation periodically utilizes short-term and long-term financial and physical derivative instruments to mitigate its exposure to fluctuations in jet fuel prices and accounts for these derivatives as cash flow hedges. For the year ended December 31, 2006, the Corporation recognized a net loss of $2,223,000 (2005 – net gain of $155,000) in aircraft fuel resulting from hedging transactions. As at December 31, 2006, the Corporation has no outstanding jet fuel hedges.

(b) Foreign currency exchange risk:

The Corporation is exposed to foreign currency fluctuations as certain ongoing expenses are referenced to US-dollar denominated prices. The Corporation periodically uses financial instruments, including foreign exchange forward contracts and options, to manage its exposure.

The Corporation has entered into a contract to purchase US $2.5 million per month at a forward rate of 1.11 for the payment period from October 2006 to March 2007 to hedge a portion of the Corporation's committed US-dollar lease payments during the same period. This contract has been designated as a fair value hedge for accounting purposes. The estimated fair market value of the remaining contract as at December 31, 2006, is a gain of CAD $369,000.

(c) Interest rate risk:

The Corporation is exposed to interest rate fluctuations on variable interest rate debt (see note 4).

(d) Credit risk:

The Corporation does not believe it is subject to any significant concentration of credit risk. Most of the Corporation's receivables result from tickets sold to individual guests through the use of major credit cards and travel agents. These receivables are short term, generally being settled shortly after the sale. The Corporation manages the credit exposure related to financial instruments by selecting counter parties based on credit ratings, limiting its exposure to any single counter party, and monitoring the market position of the program and its relative market position with each counter party.

(e) Fair value of financial instruments:

The carrying amounts of financial instruments included in the balance sheet, other than long-term debt, approximate their fair value due to their short term to maturity.

At December 31, 2006, the fair value of long-term debt was approximately $1.5 billion (2005 – $1.2 billion). The fair value of long-term debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates which represent borrowing rates presently available to the Corporation for loans with similar terms and maturity.

WESTJET EXECUTIVES

LEFT TO RIGHT: **Don Bell**, Executive Vice-President, Culture; **Dr. Hugh Dunleavy**, Executive Vice-President, Commercial Distribution; **Clive Beddoe**, Chairman and Chief Executive Officer; **Sean Durfy**, President; **Fred Ring**, Executive Vice-President, Corporate Projects; **Ken McKenzie**, Executive Vice-President, Operations; **Bob Cummings**, Executive Vice-President, Guest Experience and Marketing. NOT PICTURED IN PHOTO: **Janice Paget**, Vice-President, Controller and Co-Chief Financial Officer; **Derek Payne**, Vice-President, Finance and Corporate Services and Co-Chief Financial Officer

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WestJet Airlines Ltd.

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Legal Counsel:
Burnet, Duckworth and Palmer LLP, Calgary, AB

Stock Exchange Listing:
Shares in WestJet stock are publicly traded on the Toronto Stock Exchange under the symbols WJA and WJA.A.
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To our 5,990 caring and dedicated people who made 2006 such a success, thank you for your continued support.

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